

STATE CAPITALISM IN RUSSIA

THE SOVIET ECONOMIC SYSTEM IN OPERATION

1917 - 1926

by

SAVEL ZIMAND

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INTRODUCTION

RUSSIA, since the Bolshevik revolution, has been the subject of countless polemics. No phase of Russia's internal development nor her external relations has escaped since 1917 the confusing and distorting efforts of Communist and anti-Communist propagandists.

Several months ago the Foreign Policy Association asked Mr. Zimand to make a rigorously objective study of the important changes which have taken place in the Soviet economic system during the past eight years, with a view to making clear the present status of Russia's trade relations with the rest of the world. It was our conviction that these developments are factors of primary importance in the relation between the Russian and the American peoples, and, therefore, worthy of careful scrutiny by all of our citizens interested in the United States' foreign policy. Mr. Zimand was asked to avoid any consideration of purely political or diplomatic matters, even of one of such vital importance as recognition.

The most remarkable feature of present-day Russia is that men who, a few years ago, were busy destroying the capitalist system are at present using capitalistic methods to reconstruct and develop the agriculture, the industry and the trade of the country. In these efforts, the Soviet authorities, frequently scrapping their communistic theories when these have clashed too harshly with economic realities, have made vast concessions to capitalist standards.

Intermittently the doctrinaires have tried to return to the application of more orthodox socialistic principles, but the general tendency has been a steady swing toward "capitalistic heresies." For example, in spite of all the attempts in 1925 to break the back of private capital, private enterprise has again been granted a freer hand.

Russian foreign trade, however, has been since the revolution and remains today a government monopoly. This centralized control is now, however, somewhat less rigid than in the beginning, due to the modifications introduced by the new economic policy particularly in 1925.

The growth and security of Russia's foreign trade depends on the rapidity of her economic recovery. This in turn depends largely on the extent to which long term foreign credits are made available. But before granting these, capitalism demands still further concessions.

It is commonplace to emphasize the importance of the recovery of Russia as a factor in the recovery of Germany and of all Europe. Though the United States' foreign trade with Russia directly may never reach high percentages, Russia's return to normal would so stimulate European trade as to affect favorably American exports. Crippled Russia gives one more striking illustration of the world-wide inter-dependence of the modern industrial organization.

To enable Americans to estimate for themselves the economic, fiscal and trade situation in Russia, this limited factual survey of the last eight years has been made.

JAMES G. McDONALD
Chairman, Foreign Policy Association

FOREWORD

THE data utilized in this survey are taken largely from Russian official sources. For no study on Soviet economic life can possibly be made without using the statistics of the Soviet authorities. Moreover all the various reports on Russia issued by Governments, including our own, institutions like the International Labour Office as well as anti-Bolshevik monographs and books have invariably made use of Soviet figures. In fact Soviet statistics are not less reliable than those of some other European countries. However, the statistics of the various Soviet offices differ considerably, for the methods and scope of economic statistics are not yet clearly determined in Soviet Russia. But, in spite of the lack of standardization and the continual changing of statistical methods, the data issued by the U. S. S. R. authorities offer the best available basis upon which to build a picture of industrial conditions in Soviet Russia. Whenever possible this has been checked from other sources.

The writer desires to acknowledge the many valuable suggestions and criticisms received from economists and students of Russian economic life to whom the study has been submitted in manuscript form. Chief among these is Dr. M. L. Jacobson, for years chief statistician of the Federal Reserve Board who accorded me the benefit of his extensive knowledge and his accurate scholarship, and gave me his generous permission to make use of his materials on Russian economic conditions and whose untiring co-operation I have had at every step of this work. Dr. Leo Pasvolsky of the Institute of Economics and author of the brilliant and searching studies of Russian affairs has read the manuscript and made valuable suggestions. Prof. Paul F. Brissenden of Columbia University and Dr. H. W. Laidler, Director of the League of Industrial Democracy and a Director of the National Bureau of Economic Research, have both read the manuscript and been most liberal in their aid.

My thanks are also due to Mr. E. C. Ropes, Division of Regional Information of the U. S. Department of Commerce; Mr. R. F. Kelley, Chief of the Eastern European Division of the U. S. Department of State; Mr. Paul U. Kellogg, Editor of the "Survey" and "Survey Graphic"; Mr. Bruce Bliven an editor of the "New Republic"; Dr. Louis Levine of the Institute of Economics; the staff of the Information Service of the Amtorg Trading Corporation of New York City; and the staff of the Russian Information Bureau of Washington, D. C. Last, but not least, I want to express my thanks to the members of the Research Department and the staff of the Foreign Policy Association.

May 26, 1926.

SAVEL ZIMAND

CHAPTER I

RUSSIAN-AMERICAN TRADE

THE relations between modern nations fall into two categories: governmental and private. In the field of diplomacy the United States remains the last of the great Powers to refuse *de jure* or even *de facto* recognition of the Union of Soviet Socialist Republics. In the last year the trade between Russia and American manufacturers and exporters according to Soviet official figures has reached a volume which in money value is more than twice what it was before the war and revolution.

Probably few Americans realize that while no United States commercial attachés or consuls are at the service of American exporters in the Russian trade area, four official Russian trading companies are operating in the United States, some of them under our state laws; and that the Russian State Bank and the Russian Foreign Trade Bank are represented here by some of our leading banking institutions. Still less is it generally known that the United States, according to official Russian statements, supplied in the period from 1909 to 1913 an average of 7% of the total Russian imports and in 1924-25 nearly 30%. We shipped motor trucks and cars valued at more than a million dollars, metals the same, industrial machinery over eight million and cotton over forty-four million dollars.

In the course of the last twelve months our export trade to Russia doubled.

There has been in the past much discussion of concessions to American and other foreign capitalists. But such internal investment is apparently of smaller importance than the rapidly increasing volume of foreign trade.

DISTRIBUTION OF FOREIGN TRADE BY COUNTRIES

For the year 1925 the most important countries in the import trade (see Tables III and IV on page 25) were, in the order given, the United States, England, Germany, Holland, Belgium, Australia, Egypt and Finland. Others were Sweden, France, Italy and Esthonia.

It should be mentioned that prior to the World War, Germany occupied a dominant position in the import trade of Russia. During the war her position was taken by Great Britain, the United States and to a smaller extent by France and the neutral countries. Since 1922 Germany's share in the Soviet Union's trade has shown a substantial growth, interrupted in 1924-25 by a temporary dispute between Berlin and Moscow. In 1921-22 Germany supplied 32.9 of the

Union's imports, while taking 10.3 of her exports. The corresponding percentages for 1922-23 were 41.3 and 26.8; for 1923-24—22.4 and 19.5; and for 1924-25—16.0 and 17.3.*

Britain's share in Russia's foreign trade for the last two fiscal years (1924 and 1925) was somewhat larger, imports from Great Britain in 1924 constituting 24.3 per cent of total Soviet Union imports, and exports to Great Britain forming 23.6 per cent of the total exports. In 1925 these percentages were 17.0 and 36.5 respectively.

IMPORTANT POSITION OF THE UNITED STATES

The United States stood first on the list of Soviet imports for 1925, with 29.7 of the total imports while receiving only 4.2 per cent of the exports. The corresponding figures for 1924 were 24.9 and 1.8 respectively.**

The purchases in the United States increased in consequence of large cotton imports and large increases in the import of agricultural implements. Before the war Russian purchases (5.7 of the total Russian imports) in the United States consisted chiefly of agricultural implements, sewing machines, typewriters, raw cotton and crude rubber. In addition, however, considerable amounts of goods of American origin found their way into Russia through British and German channels and are credited to Great Britain and Germany.

Furs and skins, carpet wool, manganese ore, platinum and licorice were the leading articles among our imports from Russia. At present the leading article of importation from Soviet Russia is furs.

REVIVAL OF TRADE

According to the figures issued February 1, 1926 by the U. S. Department of Commerce the trade of the United States with Soviet Russia in Europe (over European frontier) was distributed as follows:

	Twelve months ending December	
	1925	1924
Total Exports to Russia in Europe.....	\$68,195,696	\$41,314,335
Total Imports from Russia in Europe.....	12,787,731	8,144,373

*It was reported that Mr. W. Averill Harriman proposed to advance for payment of German goods bought by the Russian Government on long-term credits, guaranteed up to 60 per cent by the Reich and the State Treasuries, \$35,000,000. "Had Mr. Harriman's proposition gone through, sums sufficient to cover the risk borne by the exporters themselves—40 per cent of the total of exports to the value of \$100,000,000, of which 60 per cent is insured by German federal and state Governments—would have been forthcoming from America." (New York Times, April 10, 1926.

But Mr. Harriman broke off negotiations when he heard of the opposition of the Government to the financing of this scheme. The statement authorized by the Secretary of Commerce was as follows:

"There seems to be some misapprehension with regard to the basis of objection to the proposed loan by W. A. Harriman and Co. to a German company organized to make loans to the Soviet Government. So far as the Department of Commerce is concerned, no objection was made to this loan on account of its effect on trade with Russia. It was simply a question of continuing the policy determined upon some months ago, not to approve loans to countries which had taken no steps to fund their debts."

**In 1926 the Soviet trade has been shifting to Germany. In fact it is reported that fully twenty million dollars worth of business has been diverted from America to Germany during the past five months of 1926. (Moscow cable in New York Times, March 23, 1926.)

United States exports to Russia for 1925 show an increase over 1924 of about 60 per cent. Imports from Russia by the United States indicate an increase of 50 per cent. It should be noted that these figures include only goods listed in the shipping documents as being destined to Russia. But as stated on page 6, there takes place a considerable volume of indirect shipping. In many cases shipment originating in the United States and going to the Soviet Union via Hamburg, the Baltic States, etc. is being credited to those countries.

The U. S. "Commerce Reports" of February 8, 1926 indicates that Russia increased her purchases of agricultural implements from the United States from a little more than \$1,000,000 in the calendar year 1924 to \$7,249,839 in the calendar year 1925, and was the third large purchaser of American implements. "The year 1925," says the "Commerce Reports" "was characterized by a renewal of purchases by Russia on a large scale, of which approximately half consisted of wheel tractors; other items of importance were plows, valued at \$720,000; mowers valued at \$648,000; harvesters and binders valued at \$453,000, and parts of tractors valued at \$647,000."

DISTRIBUTION OF RUSSIAN IMPORTS

The Soviet Information Bureau of Washington, D. C. puts the imports from the United States in the fiscal year ending September 30, 1925 at \$96,949,800, and exports by Russia at \$10,902,000. The corresponding figures for the fiscal year ending September 30, 1924 are given as \$49,955,000, and \$4,377,500, respectively. In 1913 imports from the United States to Russia amounted to \$40,730,000 and exports from Russia to the United States to \$7,290,000.

The distribution of imports into Soviet Russia from the United States by principal articles for the past two economic years is shown as follows:*

	1923-24	1924-25
Cotton**	\$39,432,130	\$44,284,833
Industrial machinery	1,300,000	7,100,000
Agricultural machinery	1,150,000	8,000,000***
Motor cars and trucks	125,000	1,063,000
Metals	176,000	1,240,000
Typewriters and office supplies	146,000	675,250
Chemicals and pharmaceuticals	287,700	437,100
Leather	123,000	422,760
Rosin	234,500	520,500

Other articles of export to Soviet Russia from the United States in 1924-25 included dry goods, hardware, needles, as well as flour valued at \$21,500,000. During the same year, exports of furs to the

*Commercial Handbook of the U. S. S. R., 1926, p. 33.

**Values given are c.i.f. Murmansk (including freight to Murmansk and insurance).

***Including tractors valued at \$3,870,283.

United States from Soviet Russia were valued at \$13,975,000; sheep casings at \$1,000,000; flax and tow at \$355,000; caviar, \$250,000; bristles, \$120,000; licorice root worth \$110,000, and manganese ore about \$4,000,000.

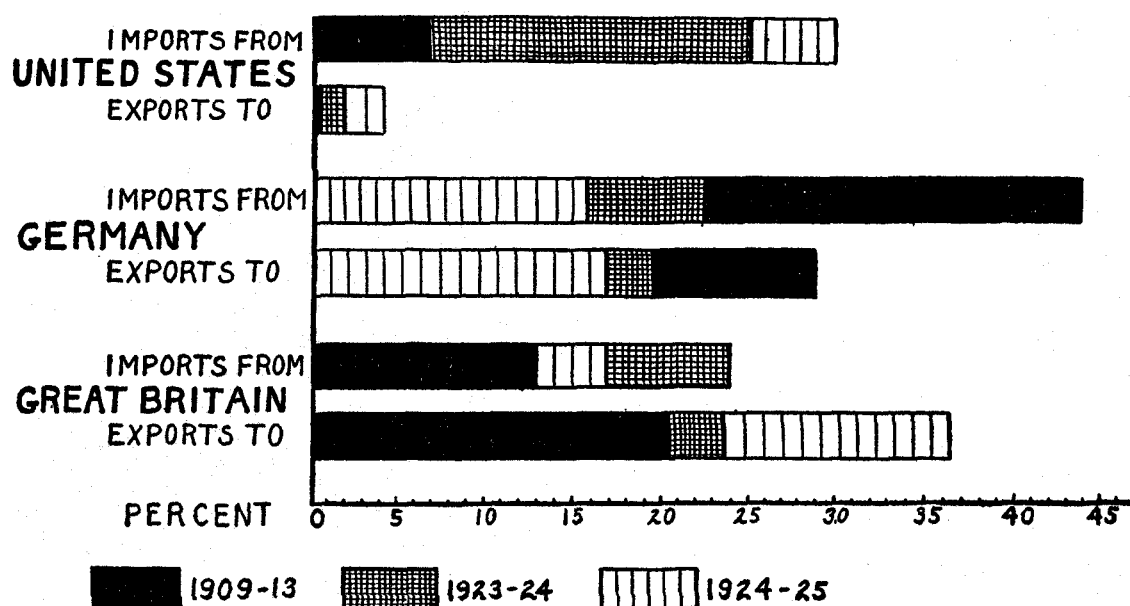
The Soviet Information Bureau, of Washington, D. C., reports* that American trade with the Soviet Union during the first six months of 1926 showed a turnover of \$33,939,928, a decrease of 48 per cent from the same period of 1925.

The shipments from the United States to the Soviet Union for this period were \$25,962,982, as compared with \$52,610,645 for the first six months of 1925, while imports were \$7,976,925, as compared with \$6,169,091 last year. Import figures for this year, however, do not include manganese ore, estimated at about \$4,000,000, and furs imported by one large trading company, estimated at about \$1,500,000.

This sharp decline is explained by the fact that during the first six months of 1925, the Soviet Union was compelled to purchase flour valued at nearly \$18,000,000, in the United States, owing to the poor harvest of the previous summer. Such purchases ceased this year. Cotton purchases this year, valued at \$12,000,000 were less by \$14,500,000 than last year.

*"Russian Review," September, 1926.

VARIATIONS IN RUSSIA'S FOREIGN TRADE, 1909-1925



Percentage of Russian Exports and Imports to and from the United States, Germany and Great Britain.

CHAPTER II

SOVIET TRADING AGENCIES IN THE UNITED STATES

SOVIET-AMERICAN trade is carried on mainly by four Soviet trading organizations and two private trading companies* with offices in New York. Their reports for the fiscal year 1924-25 show a turnover of \$103,767,657 as compared with \$53,166,816 in 1923-24. But they do not include American imports of manganese from the Soviet Union, valued at about \$4,000,000.**

The Soviet Trading Agencies are:

1. Amtorg Trading Corporation.
2. All-Russian Textile Syndicate, Inc.
3. Centrosoyus-America, Inc.
4. Selskosoyus-America, Inc.

The private trading companies are:

1. Allied American Corporation.
2. Eitingon-Schild Company.

STATUS OF AGENCIES

The Amtorg Trading Corporation is a New York State Corporation. The company had originally an authorized capital of \$1,000,000, and on July 31, 1925, it increased it to 1,500,000, all of which has been paid up. The stock is held by a number of Soviet State organizations, including Arcos, Limited, of London, which is the selling and purchasing agent of the Soviet Government in the United Kingdom. The Amtorg represents the trading bureaus of several of the republics of the Soviet Union and most of the larger Federal syndicates. The Company represents several prominent American manufacturers for Russia and exports to that country agricultural implements, machinery of all kinds, hardware, tractors and raw materials. It imports fur, veneer wood, caviar, sausage casings, skins, flax, mineral and other produce of the Soviet Union.

The All-Russian Textile Syndicate, Inc. purchases raw cotton and dyes for the Soviet textile industry. It represents the All-Union Textile Syndicate of Moscow. The company had originally an authorized capital of \$1,000,000 and on May 5, 1926 it was increased to \$2,000,000, controlled by the Moscow syndicate.

The Amtorg Trading Corporation and the All-Russian Textile Syndicate, Inc., are granted considerable accommodation by different large American banks, on a secured and an unsecured basis, and transactions thus far, according to those who have had important business dealings, have been carried on correctly and in a most satisfactory manner.

The Centrosoyus is the trading company of the Soviet consumer's co-operatives, and the Selskosoyus of the agricultural co-operatives.

*Companies in which the Soviet Government has a participating interest. See p. 16.

**Commercial Handbook of the U. S. S. R., 1926, p. 32.

The Centrosoyus is incorporated under the laws of the State of New York. The authorized capital of the Company was originally \$1,000,000, but on September 29, 1920, the company legally decreased its capital from \$1,000,000 to \$500,000, of which \$300,000 is said to be paid in. The Selskosoyus is only beginning to develop its trade. The figures up to January 1, 1926, were as follows: exports, \$1,908,587; imports, \$151,263. According to some who have had business dealings with these two companies, transactions have thus far been met correctly.

Eitingon-Schild imports Soviet furs under concession. The Allied American Corporation received a concession some years ago, and although the form of its operations has changed somewhat recently, it represents certain American concerns in Soviet trade.

VOLUME OF TRADE

The trade for 1924-25 is said to have been divided as follows among these various companies:*

COMPANIES	Exports to Soviet Union**	Imports from Soviet Union
Amtorg Trading Corporation.....	\$ 40,859,318	\$ 6,670,713
All-Russian Textile Syndicate.....	44,401,112	
Centrosoyus-America, Inc.....	198,130	5,541,225
Selskosoyus-America, Inc.....	830,711	23,004
Eitingon-Schild Company.....		3,722,553
Allied American Corporation.....	798,751	722,140
	<hr/> \$ 87,088,022	<hr/> \$ 16,679,635

AMERICAN COMMERCIAL RELATIONS WITH RUSSIA

The experiences of American manufacturers and merchants in trading with Soviet Russia have thus far been satisfactory. Terms of payment have varied, but certain credits have under specific conditions been extended, and it has been reported that payments were made promptly and contracts lived up to.

Mr. G. V. Tourbin, Vice-President of the Amtorg Trading Corporation, has furnished us with a list "of about seven hundred American firms with whom we have been doing business and placed orders, and a list of about a thousand firms with whom we have been corresponding and negotiating for new business."

Mr. E. B. Filsinger, the Export Manager of Lawrence & Co., New York, in an address delivered on February 6, 1926, before the Foreign Policy Association, describing the experiences of those who trade with Soviet Russia, said:

"I have made it my business to discuss this matter with bankers, manufacturers and merchants who have had business transactions involving many shipments to Russia. Invariably I have been informed that obligations undertaken have thus far been strictly lived up to. It would be surprising, of

*Commercial Handbook of the U. S. S. R., p. 33.

**There are no public figures of actual shipments to Russia by commodities. These represent the purchases made in the United States.

course, if there were not occasional misunderstandings and disputes as a result of different points of view regarding contracts. However, up to the present time I have heard nothing detrimental. Manufacturers in Austria, Great Britain and Czechoslovakia with whom I have discussed the matter have reported the same experience. On a recent visit to the United States Mr. Willey, the President of the Federation of British Industries, stated that the great Russian co-operative organizations had a clear record for square dealing and for properly meeting obligations. It is undoubtedly true that some recent credits were granted because the Russian concerns are incorporated in the United States.

"And what about Germany's experience in trading with Russia?"

"From Berlin an American informant closely in touch with the Russian-German situation writes me as follows: 'The Soviet Purchasing Agency in Berlin, I am informed from all sides, has never yet defaulted, and the rigid foreign trade and foreign exchange control of the Soviet Government enables it to safeguard its commitments.'

"In connection with the recent credit extended by Germany to Russia the following further comment is made by an American friend in Berlin:

"The credit is regarded in Berlin banking and official circles as entirely secure, and there is apparently little expectation that the drafts will have to be extended. In this connection it is stated that previous credit purchases of the Soviet Purchasing Agency in Germany have, without exception, been liquidated according to contract, and it is felt that the wide advertising which this transaction has received will doubly insure performance by the Soviet Government.'

"When I was in Russia two years ago I discussed the matter of fulfillment of contracts and the meeting of obligations with various Soviet officials. They told me very frankly that they realized that their very existence depends on keeping their record absolutely clear of defaults. Since they are trying to re-create a credit structure, they have to be more careful, they admit, than any merchant. This same comment has been made to me by men connected with Russian organizations in New York. I have heard it said that payments are made not from principle but for self-interest. It is self-evident to any one in business that defaults in payments lead inevitably to loss of confidence and destruction of credit.

"I know of credits for Russian purchases granted by great American firms with the utmost confidence. On the other hand, I know of applications for similar credits made to equally large American institutions which were turned down."

STATEMENTS OF AMERICAN BUSINESS HOUSES

Mr. Reeve Schley, Vice-President of the Chase National Bank of the City of New York, in a letter dated May 12, 1926, writes: "The Chase National Bank has been doing business with Russian organizations here and in Russia for the past two years directly and not through any other organizations. Our experience during this period has been entirely satisfactory."

Mr. R. J. Murray of Weil Brothers, cotton merchants, in a letter dated May 13, 1926, writes: "We have done business in large volume with the All-Russian Textile Syndicate of 120 Broadway, this city, since December 1923. We are pleased to inform you that the relationship established between us has been satisfactory in every respect."

Mr. P. F. Groomly, Agent of Tarver, Steele & Co., cotton merchants, in a letter dated May 12, 1926, writes: "We beg to advise that we have been doing business continuously with Russia since the latter part of 1922. At first we did business direct with Moscow, but in the

latter part of 1923 the Soviet Government opened up offices in America. Since that time our business has been done through their Agents here. Our entire business has been that of exporting raw cotton."

Mr. Richard A. Heald, Manager of Foreign Sales, of the Heald Machine Company, Worcester, Mass., in a letter dated May 13, 1926, writes:

"About two years ago we were doing a small amount of business with Russia through the Allied American Corporation, who had an import license; but a short while before the liquidation of that concern we cancelled our contract with them and made a sales arrangement with the Amtorg Trading Corporation.

"Our experience for the last year with that firm has been satisfactory and we have done what we consider is a fair amount of business under the conditions."

Mr. J. H. Jowett, Vice-President of the Ingersoll-Rand Co., New York City, in a letter dated May 17, 1926, writes: "We have been doing some business with the Amtorg Trading Corporation for shipment of goods to Russia, covering a period of about two years, and they have at all times met their obligations promptly."

CLOSER RELATIONS SUGGESTED

Mr. R. S. Alter, Vice-President of the American Tool Works Company, Cincinnati, Ohio, in a letter dated May 14, 1926, writes:

"This Company has had a very satisfactory amount of business from Russia for the past two years through both the Amtorg Trading Corporation and the Allied-American Corporation, both of 165 Broadway, New York; the latter, however, have ceased trading in our commodity, so that all of our business is now done through Amtorg.

"It may interest you to know that some of the important orders which we have received from Amtorg were shipped on a part-credit basis, and our experience in this connection has been perfectly satisfactory.

"A number of manufacturers, including ourselves, who have been doing business with the new régime in Russia through their trading companies here in the States, are beginning to feel that something should be done to break the deadlock. We feel that it is questionable business policy, considering the volume of business already existing between Russia and the United States, to permit the deadlock to continue indefinitely. We believe that it should be straightened up in some way which will be mutually satisfactory to the parties interested, and that this can be accomplished by conferences between authorities duly chosen to hold them.

"We are of the opinion that politics should be kept out of the situation as much as possible and that the establishment of business relations will go a long way toward bringing back a normal condition.

"If this is not done within a reasonable length of time, millions and millions of dollars' worth of trade will be diverted from American channels to European, who are already making tremendous inroads in our trade—well known to those of us who are in close touch with the situation."

We have quoted here only a few of the many answers received from those who are trading with Russia. But it should be stated that in all the replies we were informed that obligations undertaken by the Soviet Trading Agencies have thus far been strictly lived up to.

POSITION OF U. S. GOVERNMENT

According to the U. S. Department of Commerce list of 37 principal countries which took our exports, Soviet Russia ranks sixteenth. On the basis of the figures given on page 10, Soviet Russia would be thirteenth on the list. There should be added the fact that our Department of Commerce is represented by American Commercial Attachés and Trade Commissioners in 36 countries, and to 19 of these countries less merchandise in value was shipped during 1925 than to Soviet Russia.

Our Government is obliged, as it has been stated officially, "to depend for information on statistics and reports issued by the Soviet Government, without verification on the spot, or on facts and figures cabled by American and other newspaper correspondents in Moscow. While such information is helpful in gaining a general impression of conditions in Russia, it does not compare favorably with information gathered through the customary channels in other countries."*

The United States Government has repeatedly stated that it "has no objection to American merchants doing business with the Russian Soviet authority, provided it is always understood that in the absence of any diplomatic representative in that country this Government is not in a position to protect the interests of its nationals in the event of any misunderstandings or conflicts arising, so that it is left to the American business concerns engaging in such business to see to it that their interests are adequately secured in making their arrangements."**

*"The United States Official Point of View," Current History, February, 1926, pp. 626-627.

**Stenographic Report of Address by E. B. Filsinger, export manager of Lawrence & Co., before the Foreign Policy Association, February 6, 1926. See Appendix. See also (1) letter of Secretary Hughes in reply to a request from Samuel Gompers for information concerning Russia, and (2) a statement by Secretary Hughes to the delegation of the Women's Committee for Recognition of Russia, March 21, 1923. The former is reprinted in "Russian Debts and Russian Reconstruction," Pasvolsky and Moulton, pp. 237-241. The latter is published in the New York Times of March 22, 1923.

CHAPTER III

CHANGES IN THE FOREIGN TRADE MONOPOLY

RUSSIAN foreign trade has been, since the Communist Revolution, a Government monopoly. The world experienced various forms of national and international control over commerce during the war, but as a peace time system the Soviet foreign trade monopoly, as encountered by European and American importers and exporters, is without counterpart. It is however less rigid today than when it was instituted. The introduction of the "NEP" led to modifications and the most recent measures (those of November, 1925) are all in the direction of elasticity.*

The foreign trade monopoly was instituted under a decree passed by the Council of People's Commissars of the Russian Socialist Federated Soviet Republic on April 22, 1918.** The principles of the monopoly found their fullest expression in a decree adopted by the Council of People's Commissars of the R. S. F. S. R. on June 11, 1920.† By virtue of this decree the Government, through the instrumentality of the People's Commissariat for Foreign Trade (Vneshtorg), became the sole entity authorized to carry on foreign trade operations, in accordance with a yearly import and export schedule worked out by the planning organs of the Government.

After the introduction of the New Economic Policy, foreign trade legislation conserved the principles of the State's monopoly in this field, but wrought profound changes in the nature of that monopoly.

EARLY TRADE LEGISLATION

This legislation conferred upon several state trading organizations, the central co-operative bodies and in special cases also upon private corporations and individuals, the right to engage in foreign trade through their own agencies at home and abroad, but in strict accordance with the Government's general import and export plan and under the supervision of the Commissariat for Foreign Trade. No goods were permitted to enter or leave the country without special certificates or licenses issued by the Commissariat. For the purpose of effecting foreign trade operations, the Government also created joint stock companies, i. e., those in which private capital could participate.‡

*See "Organization of Foreign Trade" in "Russian Review", (Washington, D. C.), October 15, 1924, pp. 142-154; November 1, 1924, pp. 164-166; November 15, 1924, pp. 190-194; also L'Organization du commerce extérieur de l'Union des R. S. S. in "L'Union Soviétique et la France, Manuel de l'exportation et l'importation". Moscow, 1925, pp. 39-43.

**Collected Statutes of 1918, No. 33, Art. 432.

†Collected Statutes of 1920, No. 53, Art. 235.

‡Decree "Concerning Foreign Trade" issued by the Presidium of the Central Executive Committee on March 13, 1922—Collected Statutes of 1922, No. 24, Art. 266; Decree "Concerning Foreign Trade" issued by the Central Executive Committee and the Council of People's Commissars on October 16, 1922—Collected Statutes of 1922, No. 65, Art. 846; Decrees issued by the Central Executive Committee and the Council of People's Commissars on April 12, 1923—Collected Statutes of 1923, No. 31, Art. 345, and others.

At the time the Soviet Union was established (July 6, 1923),* the laws regarding foreign trade had already been standardized. The Constitution of the Soviet Union merely affirmed the legislation already in existence when it prescribed that the regulation of foreign trade (Art. 1, Section "g" of the Constitution of the U. S. S. R.) should come under the jurisdiction of the federal Government and created a single unit for the control of the Soviet Union's foreign trade through the instrumentality of the People's Commissariat for Foreign Trade. (Art. 51 of the Soviet Union's Constitution.)

Originally the Commissariat for Foreign Trade was charged with commercial as well as with purely administrative functions. Beginning with May, 1922, its commercial functions passed over to the State Trading Organizations and in part to those joint stock companies that had been founded for foreign trade purposes. The resolution of the Commissariat for Foreign Trade confirmed at the third session of the Central Executive Committee of the Soviet Union charges this body with "the supervision of all foreign trade activities of the Soviet Union on the basis of the foreign trade monopoly of the State."**

PRINCIPAL DUTIES OF COMMISSARIAT OF TRADE

In October, 1925, the Government decided to amalgamate the Commissariat of Domestic Trade with the Commissariat for Foreign Trade. It is this amalgamated Commissariat which for the sake of brevity is referred to in this chapter as the Commissariat for Foreign Trade.

The principal duties of the Commissariat for Foreign Trade are: (1) the maintenance of commercial relations with foreign countries, (2) the elaboration of an import and export program, (3) the carrying out of that program, (4) the organization of mixed and other companies and institutions engaged in foreign trade, (5) the supervision of the import and export activities of institutions, organizations and individuals carrying on foreign trade regulations, (6) regulation of transportation problems connected with foreign trade, (7) administration of customs matters.

*Until the end of 1922 the rule of the Russian Socialist Federative Soviet Republic was in its undefined character not unlike that of our Federal Government over the United States. But as a result of a treaty concluded in December, 1922, the Act of Union of July 6, 1923, the R. S. F. S. R. was replaced by the Union of Soviet Socialist Republics. The U. S. S. R. is composed of six constituent republics. The divisions and subdivisions among the Constituent Republics of the U. S. S. R. correspond to racial or geographical demarkations. The supreme organ of authority is the All-Union Congress of Soviets. This is composed of representatives of town and township Soviets and of provincial Congresses of Soviets. During the interval between the All-Union Congresses of Soviets, the supreme authority devolves upon the Central Executive Committee, consisting of the Council of the Union and the Council of Nationalities. The Council of the Union is elected by the Congress from representatives of the six Constituent Republics, in proportion to their population, in all to a total of 450 members. The Council of Nationalities is formed of representatives of the Constituent and Autonomous Republics, five delegates from each, and of representatives of autonomous areas, one delegate from each, in all 131 members. The Council of People's Commissars is the executive and directive organ of the Central Executive Committee. In the Soviet administrative scheme, the People's Commissariats are divided into three categories: Commissariats of the whole Union alone; Commissariats which form part of the administrative scheme of the Constituent Republics, as well as of the Federal Government; Commissariats which appear in the Constituent Republics alone.

**Collected Statutes of 1923, No. 108, Art. 1035.

The personnel of this body consists of the Commissariat, the Collegium, attached to its office, and several managing boards, such as (1) the Board of Trade Enterprises and Institutions, (2) the Board of Regulation, (3) the Legal Economic Board, (4) the Transport Board, and (5) the Customs Board. The domestic and foreign organs of the Commissariat are (1) the plenipotentiary representatives delegated to the Councils of the People's Commissars of the various Constituent Republics, (2) the regional bureaus in the territory of the individual republics subordinate to the plenipotentiary representative, (3) the Trade Delegations and commercial agencies abroad, and (4) the Customs divisions.

OPERATIONS OF THE COMMISSARIAT

Foreign Trade is conducted through:

- (1) Official establishments, such as the State Trading Organizations (Gostorg), the Commissariats, Syndicates and Trusts, Banks and Credit Institutions, and also such other organs as obtain permits to trade.*
- (2) The Co-operative commercial organizations such as Centrosoyus (Consumers' Co-operatives) and Selskosoyus (Agricultural Co-operatives).
- (3) The Mixed Companies which may again be subdivided into (a) combinations of official establishments for purposes of foreign trade; (b) companies in which private foreign capital participates; and (c) companies with private native capital.
- (4) Private companies and persons trading under license for a specified period and purpose. In their case the Government does not participate in the capital but in the profits only.

The operations of all these organizations must conform to the general program of the Commissariat of Foreign Trade.

The Trade Delegations of the Soviet Union are its commercial representatives abroad. Some of the countries which have accorded *de jure* recognition to the Soviet Union have granted the Trade Delegations extraterritorial rights. These Delegations (Torgpredstvo) by displacing the foreign exporter and buying from the producer are intended to acquire the middleman's profit for the Government account.

In countries which have not established diplomatic relations with the Soviet Union there exist trade agencies. Usually they are charged with regulating functions, but in countries where it is possible to conduct direct commercial operations, the work of the trade agencies includes the execution of commission transactions entrusted to them

*For descriptions of syndicates and trusts and the evolution of the "NEP" see Chapter VII on Soviet Structure of Industry.

by the commercial organs of the Commissariat for Foreign Trade. In the United States this function is fulfilled to a certain extent by the Amtorg Trading Corporation.

Russian foreign trade is financed by the State Bank, the Foreign Trade Bank, the Bank of Industry, all of which use more or less similar methods.*

MODIFICATION OF MONOPOLY

In the latter half of 1925, the Soviet authorities began to realize that it was disadvantageous and impracticable to make the entire foreign trade turnover pass through a single narrow bottle-neck such as the Commissariat for Foreign Trade. The Trade Delegations were as a rule slow and inefficient; red tape and bureaucracy made them still slower. The Moscow *Economicheskaya Zhizn* printed a statement taken from one of Kamenef's speeches in which he is quoted as having said, "No longer could we endure the condition under which only our Trade Delegations had the power to buy pins, soap, machinery, clothing, nailfiles and what not. Such a state of things is dying a natural death."**

About the middle of November, 1925, the Central Committee of the Communist Party decided so to reshape the Foreign Trade Monopoly that it might work more elastically. The essential idea of the monopoly was retained. For the Soviet leaders are convinced that the value of the monopoly as an instrument for protecting the industries, warding off an unfavorable trade balance and maintaining the gold parity of the Tchervonets currency far outweighs any defects of the system. However, certain changes were made which may result in important alterations.

One resolution was in favor of giving the state trusts and syndicates which are interested in making purchases and sales more freedom of action and of giving the Commissariat for Foreign Trade a regulating rather than a directly executive role in these questions.

ORGANIZATION OF STOCK COMPANIES

A large number of stock companies have been created for the purpose of facilitating the export and import of certain defined classes of goods. These special syndicates are to carry on the export of butter, oil, flax, furs, coal and timber, each organization to deal with only one product or group of commodities. Besides the "Textilimport," in existence for some time and serving as a textile import buying organization, purchasing raw material and machinery for the textile industry, other important companies have also been formed in agricultural machinery and fertilizers, leather, metals, chemical and electrical industries. Only in certain exceptional cases are these import and export companies to enjoy monopolistic rights.†

*"L'Union Soviétique et La France" (Moscou), 1925, p. 164-173.

**Quoted in *The Literary Digest*, January 2, 1926.

†Aus der Volkswirtschaft der U. S. S. R. (Official magazine of the Russian Trade Delegation to Germany.) December, 1925, pp. 98-102.

SPECIALIZATION IN BUYING

Another step undertaken is the revision and simplification of the licensing of imports and exports and the creation of special buying departments to deal with small orders of all kinds, these orders to receive special facilities. Through the import and export companies the larger industries will be able to work with less friction and better results in the field of foreign trade.

Specialization in buying is also introduced in the different Trade Delegations. These institutions have organized various departments which buy for the individual industries. In the Trade Delegation to Germany there are eighteen various buying departments.

All these changes do not represent any modification of the essential idea of the monopoly. The Moscow *Izvestiya* draws attention to the fact that, despite the introduction of the new reform, the Government will continue to exercise vigilance over foreign trade, and adds that "in its struggle for socialism, the working class has opened the door to private capital comparatively wide, but the working class must never forget its main objective. It admits private capital to hasten the development of the economic system of the country in branches that thus far have not been controlled effectively by the State and by the co-operatives. But the working class must learn as soon as possible how to build up an efficient commercial organization of its own, one which will be able gradually to force private capital out of the country."*

SUMMARY

But the various economic reforms introduced in the last few years in the Soviet Union and the last changes made regarding trade seem to indicate that eventually through less bureaucratic methods the trade monopoly will be placed upon a more efficient and businesslike basis.

*Quoted in *The Literary Digest*, January 2, 1926.

CHAPTER IV

FOREIGN TRADE DEVELOPMENTS OF THE SOVIET UNION

THE changes which have taken place in the foreign trade of Soviet Russia are most clearly brought out by comparison with the international trade position of pre-war Russia.

When the "sanitary cordon" set up by the Allied Powers was enforced against Soviet Russia from the Revolution to the close of 1920, Russia's foreign trade dropped to practically nothing. In the five years since, it has risen to a third of its pre-war volume in exports, to half its pre-war volume in imports. And as stated on page 6, among the importing countries the United States ranks first.

PRE-WAR FOREIGN TRADE

The rapid development of foreign trade before the World War reflects on its import side the progressive industrialism of the country which became especially noticeable at the start of the twentieth century. Merchandise imports increased from 651,000,000 rubles in 1904 to 1,374,000,000 in 1913. About one-half of the imports into Russia before the war consisted of raw materials and semi-manufactures, and those second in importance were composed of finished products, largely machinery. Imports of agricultural equipment ran into large figures, and electrical plants, engines, metal working and textile machinery, pumps, saw mill equipment, sewing machines and machine parts of various kinds were imported in large amounts. Leather and its manufactures, paper, chemical and pharmaceutical products, tanning materials, electrical supplies, clocks and watches, glassware, optical apparatus, haberdashery, musical instruments and hand tools were important items.

At the beginning of the twentieth century, raw materials formed the largest part of the exports. During the decade immediately preceding the Great War, about 60 per cent of the exports were composed of foodstuffs, and between 35 and 40 of raw semi-manufactured materials. A large share of the classification "raw and semi-manufactured" products was of agricultural origin and as much as 80 per cent of all exports of Russia were from the farms. Lumber and wood products followed next in importance, and manganese and platinum comprised the bulk of the metals exported. Petroleum exports were of less importance, a growing share being retained for domestic consumption. Exports of manufactures during the pre-war period, largely cotton goods shipped to Persia and other Asiatic markets, constituted about 5 per cent of the total exports.

But imports were only partly offset by Russian exports. To a large extent they represented new investments of foreign, largely French, capital. The study of the financial position of Russia made by the Institute of Economics* shows that of the total debt of

*Pasvolsky and Moulton—Russian Debts and Russian Reconstruction, 1924, p. 16-20.

8,811,000,000 rubles on January 1, 1914, about 48 per cent was held abroad and that possibly one-half of this foreign-held debt was contracted during the two decades preceding the World War. During this period Russian municipalities raised foreign loans for the development of their public utilities, and private railroad bonds, bearing Government endorsement, were also placed abroad. Altogether, these two decades saw an increase of the foreign Russian State debt by about 2,500,000,000 rubles, and of the municipal and Government guaranteed loans by about 600,000,000 rubles, while foreign industrial investments increased by no less than 1,000,000,000 rubles. During the five-year period preceding the war, the annual interest on the foreign indebtedness of Russia, both Government and corporate, aggregated about 350,000,000 rubles, out of a total of invisible debits of about 440,000,000 rubles, representing annual payments due on account of total foreign obligations and services, including banking, brokerage, insurance, official expenditures, etc.*

As distinct from the industrial countries of Europe, Russia's international account had no sizeable offsetting credit items, except an excess of merchandise exports. By far the larger part of her seaborne trade has been and still is being carried in foreign bottoms and the annual tribute to foreign vessel owners before the war was about 100,000,000 rubles. French and German banks did the greater part of trade financing.

The country's merchandise exports increased from 1,006,000,000 rubles in 1904 to 1,520,000,000 in 1913, and in the period 1909-1913 the average annual value was 1,501,400,000 rubles. The corresponding import figures for the period 1909-13 was 1,140,000,000 rubles. Thus the average export surplus for this period of 360,000,000 rubles was insufficient to cover all annual payments on account of foreign debts and services causing therefore a steady growth of the Russian public debt. In fact the international credit position of Russia was such that only an occasional extraordinarily good crop staved off financial catastrophe.

DOMINANT POSITION OF GERMANY

As seen on page 25, Germany occupied a dominant position in Russia's foreign trade. Her exports into Russia in 1913 were 47.4 per cent of the total imports, while of the total exports of Russia almost 30 per cent were shipped to Germany direct and an additional 12 per cent to the Netherlands, largely for trans-shipment to Western Germany. In 1913 England's share in the total imports was only 12 per cent. These two countries, together with the United States, China and France, supplied four-fifths of all imports. In 1913 the United States furnished 5.7 per cent of the Russian imports and received 0.9 per cent of Russian exports.

War with the Central European powers and Turkey resulted in the closing to trade of the Russian Empire's western frontier and the "bottling up" of Russia's seaports on the Baltic and Black seas,

*Pasvolsky and Moulton: "Russian Debts and Russian Reconstruction," 1924, p. 32.

which in 1913 had handled by far the largest part of the country's foreign commerce. Imports on private account (apart from munitions and other war supplies not recorded in trade statistics), though much diminished in weight, did not decline in value, the articles imported during the war period apparently being of relatively high value and small bulk. Exports on the other hand, normally composed of low-priced and bulky products, fell off both in volume and value. In 1915 the exports were but 26.7 per cent in value and 10 per cent in weight of the average exports for the five-year period 1909-1913, while in 1917 they were about 30 per cent in value and declined to less than 4 per cent in weight of the 1909-1913 average. With the steady decline of exports, the foreign indebtedness of Russia increased during the war period by about 7,681,000,000 rubles, i.e., almost doubled.†

COLLAPSE OF FOREIGN TRADE FOLLOWING REVOLUTION

In the first years after the war, that is, following the Bolshevik revolution, the foreign trade, owing to the "cordon sanitaire" maintained by the Allied Powers, came practically to a complete standstill. About the close of 1920, trade relations were re-established, at first with the Scandinavian countries, and soon after with other European countries. In 1922, by the treaty of Rapallo, trading was formally resumed with Germany. During 1923-24 the Soviet Union obtained *de jure* recognition from the principal European countries. In the commercial treaty with Italy, signed February 7, 1924, the Soviet system of foreign trade for the first time obtained formal recognition.

During 1921 and 1922 imports by far exceeded exports, and in the three years, 1920 to 1922, the Government had to ship abroad in addition to the 104,000,000 rubles of exported merchandise, 680,000,000 rubles of gold to pay for indispensable imports. The imports for 1922 are exclusive of famine relief supplies, which, according to official figures, amounted to 183,800,000 rubles. This amount affects the Russian balance of payments only to the extent that an amount of \$11,400,000 in gold was contributed by the Soviet Government to the American Relief Administration in purchase of food for the famine sufferers.*

On the basis of current prices, the volume of foreign trade of the Soviet Union over all frontiers for the period 1922-1925, compared with 1913, according to official figures,** was as follows:

Year	Imports Rubles	Exports Rubles
1913	1,374,034,000	1,520,133,000
1922-23	187,400,000	210,600,000
1923-24	439,300,000	522,600,000
1924-25‡	718,800,000	567,600,000

†Jacobson, M. L., in Senate Document on "European Currency and Finance," 1925, Serial 9, Vol. II, p. 210.

*Jacobson, M. L., op. cit., p. 211.

**Führer durch die Wirtschaft der U. S. S. R. (Berlin) 1926, p. 37-38.

‡The figures of the Chief Customs Administration of the Soviet Government as reported by U. S. "Commerce Reports" of June 14, 1926, indicate that imports across all frontiers into the Soviet Union during the fiscal year ended September 30, 1925, amounted to 1,760,000 tons, valued (at current prices) at 709,400,000 rubles and exports amounted to 6,152,000 tons, valued at 567,600,000 rubles. In comparison with the preceding year, imports show an increase of 65 per cent, and exports 9 per cent.

For the two fiscal years, 1923 and 1924, the official figures show export surpluses of 23,200,000 rubles and 83,300,000 rubles. The year 1925 shows an unfavorable trade balance of 151,000,000 rubles. The change during the fiscal years 1922-23 and 1923-24 was largely due to the resumption of grain exports, which in 1923-24 constituted 42.9 per cent of the total exports for that year. In 1924-25 because of the partial crop failure, grain exports were practically suspended and the Government was obliged to import grain and flour for the benefit of the city population, and also in order to prevent an excessive rise in the prices of domestic grain and flour.

The following table shows the distribution of the Soviet Union's exports on the basis of the four basic commodity groups, as divided by Soviet customs statistics:*

TABLE I
DISTRIBUTION OF EXPORTS
(On the basis of 1913 prices)

Year	Foodstuffs	Raw and Semi-Manufactured Materials	Live Stock	Manufactured Articles	Total
1909-13	..... 61.8	34.4	1.9	1.9	100
1921-22	..... 4.2	91.4	0.1	4.3	100
1922-23	..... 35.4	62.8	0.0	1.8	100
1923-24	..... 57.5	42.0	0.0	0.5	100
1924-25	..... 31.7	66.6	0.8	0.9	100

Besides grain, other export items in the foodstuff class that have assumed some importance are butter and eggs. In the raw and semi-manufactured materials class, which constituted 42 per cent of the 1923-24 and 66.6 per cent of the 1924-25 exports, were petroleum and products thereof, lumber and wood products (boards, planks, etc.), flax, furs, seeds, oil cake, manganese. Nearly fifty per cent of the total exports during the past fiscal year (1924-25) was composed of lumber and wood products, furs and petroleum.

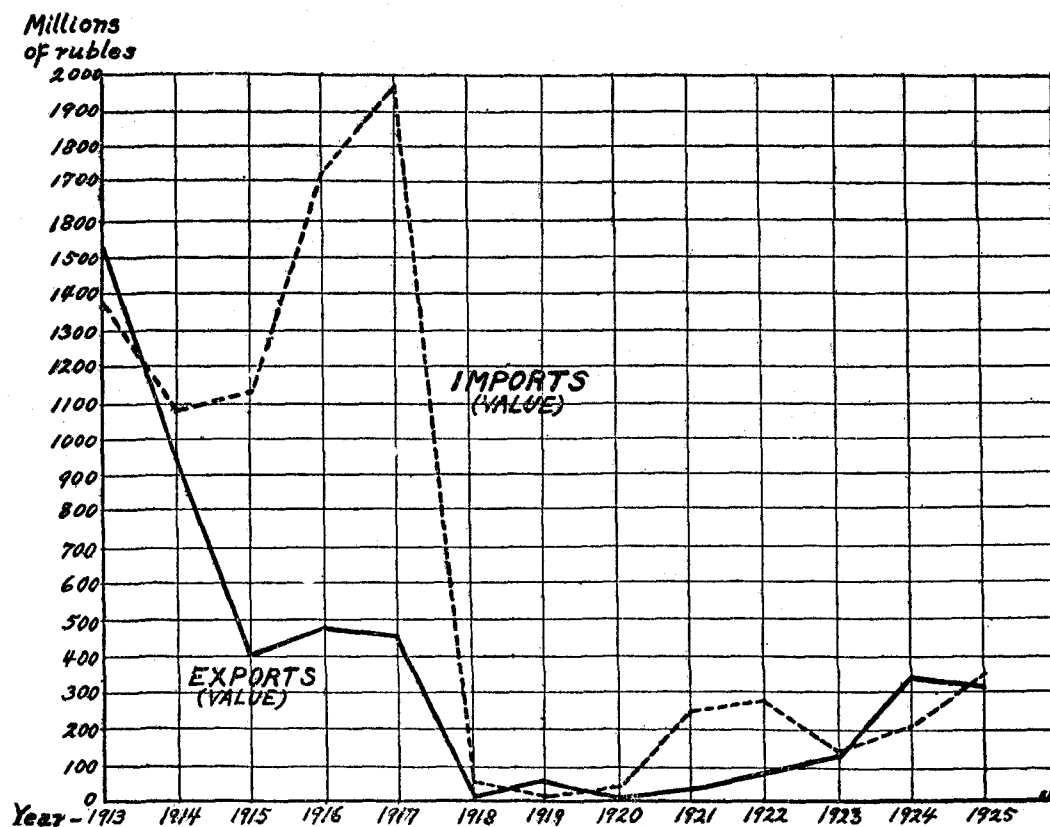
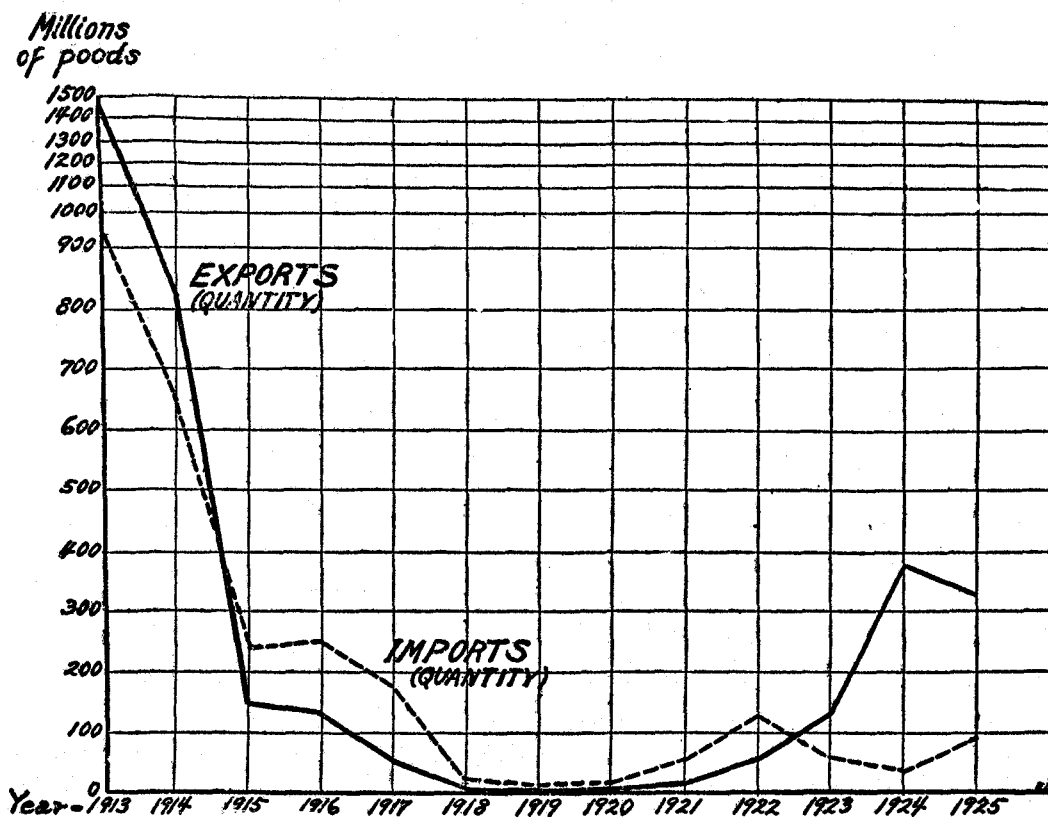
The imports for the last five years into the Soviet Union of the four basic commodity groups in percentage to the total imports were distributed as follows:**

TABLE II
DISTRIBUTION OF IMPORTS
(On the basis of 1913 prices)

Year	Foodstuffs	Raw and Semi-Manufactured Materials	Live Stock	Manufactured Articles	Total
1909-13	..... 13.3	51.0	0.3	35.4	100
1921-22	..... 35.0	11.1	0.0	53.9	100
1922-23	..... 12.3	40.8	0.0	46.9	100
1923-24	..... 8.5	59.9	0.0	31.6	100
1924-25	..... 24.1	44.1	0.0	31.8	100

*"Aus der Volkswirtschaft der U. S. S. R." (Fünf Jahre Aussenhandel) January, 1926, p. 15.

**Ibid., p. 19.



RUSSIAN IMPORTS AND EXPORTS, 1913-1925
 On the basis of 1913 values and over the European frontier only.
 (One pood equivalent to 36 pounds; value of ruble \$.5145.)

The largest items in the import trade during 1924-1925 were raw materials and semi-manufactured articles. Chief among them was cotton, mainly from the United States, totaling \$44,284,833, and constituting by far the largest single import item for the year. Other important items were grain, wool, agricultural machinery, colors and dyes, metals. Imports of machinery and plant equipment, though indispensable for the reconstruction of industry, were quite considerable.

GROWING IMPORTANCE OF POST-WAR TRADE

On the basis of current values, the 1924-25 imports into Soviet Russia over both the European and Asiatic frontiers were 52.2% of like imports into Russia for the calendar year 1913, while 1924-25 exports over all frontiers were 37.3% of like exports in 1913.

For the fiscal year ended September 30, 1925, exports from Soviet Russia over the European frontier, including Black Sea ports, were 507,844,000 gold rubles on the basis of current valuations, and 320,114,000 rubles on the basis of 1913 prices. Imports totaled 633,311,000 rubles on the basis of current valuations and 356,095,000 rubles on the basis of 1913 prices. If comparison is made with the corresponding 1913 imports and exports (1,220,474,000 and 1,420,855,000 rubles), it is found that on the basis of 1913 prices, the 1925 imports were 29.2% of the 1913 imports and the 1925 exports 22.5% of the 1913 exports.*

To summarize: The foreign trade figures show a steady growth of imports and exports. But the rapid development of foreign trade of the Soviet Union depends primarily upon her agriculture, for unless she can export she cannot buy. The crops of 1925 were satisfactory. But because of the lack of a sufficient quantity of cheap goods the peasants withheld their surplus grain from the market.

According to Mr. Rykof, the Government had been forced to reduce the quantity of goods they expected to import from 1,005,000,000 rubles to 685,000,000 rubles, and of this amount they would be obliged to pay 535,000,000 rubles in cash for merchandise purchased abroad. The exports were reduced from 1,010,000,000 rubles to 720,000,000 rubles. "Since we expected a larger export," declared Mr. Rykof, "we ordered a large amount of goods abroad and find ourselves in a position where the proceeds from our exports are insufficient to meet our foreign obligations for payments. Therefore we are again compelled to draw upon our currency reserves to pay our foreign obligations."**

Apparently this deadlock can be broken only if, and when, further credits are obtained by the Soviet Union. The absence of further foreign credits will in the long run make more difficult the trade recovery of Soviet Russia.

*The pre-war figures are from "Commercial Year Book of the Soviet Union," 1925, p. 215-16. The 1924-25 figures are from *Economicheskoye Obozreniye*, (Economic Review; monthly of the Council of Labor and Defense), Dec., 1925, p. 322-333.

***Izvestiya*, (News; official organ of the Central Executive Committee of the Soviet Union), March 10, 1926.

TABLE III

DISTRIBUTION OF RUSSIA'S FOREIGN TRADE*

(In thousands of rubles on the basis of current valuations)

	IMPORTS			EXPORTS		
	1913 (calendar yr.)	1923-24 (fiscal yr.)	1924-25 (fiscal yr.)	1913 (calendar yr.)	1923-24 (fiscal yr.)	1924-25 (fiscal yr.)
Belgium	8,874	740	3,316	64,663	13,400	19,271
Denmark	12,867	430	1,666	36,425	15,000	13,697
Esthonia .....	.....	7,850	4,168	.....	20,900	13,967
France	56,990	4,460	9,079	100,876	20,600	22,133
Germany	652,209	87,000	101,602	453,584	93,700	87,005
Great Britain	173,012	95,000	107,806	267,801	113,000	185,442
Holland	21,389	2,660	33,878	177,412	31,000	20,514
Italy	16,808	2,200	5,237	73,761	21,500	15,433
Latvia .....	.....	4,780	2,756	.....	52,500	62,744
United States	79,093	97,000	188,252	14,155	8,500	21,169
Other Countries	352,792	85,980	175,551	331,456	90,600	46,469
Total	1,374,034	388,100	633,311	1,520,133	480,700	507,844

*The 1913 figures are for European, Black Sea, Caucasus and Asiatic frontiers. The 1924 and 1925 figures are for the European frontiers only. The 1913 figures are taken from "Russian Commercial Year-Book of the Soviet Union of 1925," p. 215. The 1924 and 1925 data from Commercial Handbook of the U. S. S. R., p. 31.

TABLE IV

DISTRIBUTION OF RUSSIAN FOREIGN TRADE*

Percentages based on total money value of exports and imports

	IMPORTS			EXPORTS		
	1909-13 Per Cent	1923-24	1924-25	1909-13	1923-24 Per Cent	1924-25
United States	7.0	24.9	29.7	0.9	1.8	4.2
Germany	43.6	22.4	16.0	29.0	19.5	17.3
Great Britain	13.2	24.3	17.0	20.5	23.6	36.5
Sweden .....	.....	6.1	2.4	.....	0.7	0.2
Finland .....	.....	3.4	2.9	.....	2.8	0.5
China	7.0	2.5	0.7	1.7	.....	.....
Latvia .....	.....	2.3	0.4	.....	11.0	12.3
France	4.9	1.1	1.4	6.3	4.3	4.3
Netherlands .....	.....	0.7	5.3	.....	6.3	4.0
Belgium .....	.....	0.1	5.2	.....	2.7	3.8
Australia .....	.....	0.1	4.7	.....	.....	.....

*From Annual Report of the Torg Prom (Industrial) Bank for 1924-5, p. 87. The 1913 figures from *Gosudarstvennoye i Narodnoye Khoziaistvo*, U. S. S. R. (Economic Yearbook on Public Finance and Economic Conditions in U. S. S. R.) 1922-23, p. 535-536.

CHAPTER V

FOREIGN CONCESSIONS

THE Soviet program of concessions for the attraction of foreign capital originated at the first Congress of Councils of National Economy in April, 1918. The decree was suspended, but became again applicable in 1921 under the New Economic Policy.

No definite estimates seem yet available of the total foreign capital introduced into Russia since the Bolshevik revolution. The amount of foreign investment in Russia before the war has been calculated to have been \$1,120,000,000. Of this the amount of American capital invested in Russian industry was approximately \$58,875,000, all of which has since been expropriated by the Soviet government. The United States capital represented about 5 per cent of the total foreign investment.*

Soviet Concessions are obtained through the Chief Concessions Committee attached to the Supreme Council of National Economy. Under "regular concessions" are understood those enterprises which are operated solely with foreign private capital, while "mixed companies" are operated with both foreign private capital and Soviet state capital. Each concession agreement is supposed to constitute a special law in itself, as a rule running for a limited period of years. The concessionaire furnishes the capital for development and technical help and pays a fixed royalty. Concessions are also granted to mixed companies in which the Soviet Government receives half the shares. (See page 16.)

PRIVATE FOREIGN CAPITAL IN RUSSIA

The distribution of the concessions granted according to countries, including the subdivision into regular concession enterprises and mixed companies, is as follows** (only the more important countries being mentioned in the list):

	Regular Concession Enterprises	Mixed Companies	Total
Germany	20	9	29
England	16	5	21
United States	11	2	13
Sweden	4	1	5
Norway	4	1	5
Japan	4	0	4
Italy	4	0	4
Poland	2	2	4
France	3	0	3
Denmark	3	0	3
Finland	3	0	3

*Pasvolsky and Moulton, Op. cit., p. 182.

***Russian Review*, May, 1926, p. 122.

According to branches of national economy the concessions granted are distributed as follows:

	Regular Concession Enterprises	Mixed Companies	Total
Trading	18	15	33
Manufacturing	20	3	23
Mining	20	1	21
Transport and Communication	6	6	12
Agricultural	16	0	16
Timber	2	4	6
Construction	2	0	2
Other	2	2	4
Total	86	31	117

The official Russian Information Bureau, Washington, D. C., reports that on January 1, 1926, the Chief Concessions Committee had on record the following organizations operating according to all the legal requirements:

Regular Concessions.....	86
Mixed Companies.....	31
Total Concessions.....	117
Foreign Firms, Registered.....	91
Joint Stock Companies Authorized.....	18
Grand Total.....	226

The three largest concessions granted during 1925 were the Volga timber concession granted to former Chancellor Wirth of Germany; the Tchiaturi manganese concession to W. A. Harriman & Co., and the Lena Goldfields concession to an Anglo-American Syndicate.

RUSSIAN CONCESSIONS TO AMERICANS

The Harriman concession, to run for 20 years, covers rich manganese fields in the Georgian Soviet Republic. Under the contract Harriman & Co. gets the exclusive right for a term of twenty years to explore and exploit the Tchiaturi deposits and to export manganese and peroxide from these deposits, located in the Sharopansky Uyezd, province of Kutars, S. S. R. of Georgia. The concessionaire is obliged to expend for equipment not less than \$4,000,000. In compensation, the concessionaire pays to the Soviet Government a royalty of from \$3 to \$4 per ton of exported manganese ore, and from \$8 to \$9 per ton of exported peroxide. The volume of exported peroxide cannot be less than 4 per cent of that of manganese.

In regard to labor, the concessionaire is subject to the usual legislation of the U. S. S. R. Disputed questions arising between the Government and the concessionaire regarding the interpretation of the agreement in

whole or in part, are to be settled by an arbitration court, consisting of one representative of the Government and one of the concessionaire, who jointly elect an umpire. If no understanding in regard to the umpire can be reached, the Government submits, within the terms foreseen in the agreement, a list of six candidates from among the professors of the Sorbonne University in Paris or of the University of Oslo, from whom the concessionaire selects one to act as umpire.†

CONCESSIONS OF 1925-1926

The Lena Goldfields concession includes gold mines in the Lena-Vitim region, copper-lead-zinc resources in the Zyrianovsk region in the Zmeinogorsk Altai Mountains, and copper, iron and other resources in the Sysertsk-Revdinsk region of the Urals, along with certain timber and coal rights. The concession in the Lena-Vitim region runs for 30 years, and in the other two regions for 50 years. The Lena Goldfields Company operated in these same regions under the Tsarist régime.*

American interests are participating to the extent of 50 per cent in this concession.**

The other industrial American concessions are a small gold mining concession in the Far East and a rather small asbestos concession in the Urals.

Mention should be made of the mining concession granted in the Maritime Province (Far East) to the British corporation "The Priamur Mines, Ltd." The contract leases to the company sixteen lots, with iron ore deposits, thirty lots with zinc, silver and lead deposits. The total outlay of capital for the construction of metallurgical mills will reach four to five million dollars, thus creating a new metal-producing center in this new hardly-explored region.

Four concessions on the Sakhalien Island were granted to different Japanese syndicates, three for exploitation of coal and one for oil. The duration of all the contracts is forty-five years. The territory of the concession is located on the western shore of the Russian (northern) part of Sakhalien.***

A Soviet authority reviewing the five years' concession policy of the Government admits that the results have fallen short of the expectations.**** The foreigners thrown out of the window of the "world revolution" in 1917 are invited back again by the door under the sign, "New Economic Policy". But so far there has been no great rush after Soviet concessions.

†Econimicheskaya Zhizn, June 13, 1925.

*Commercial Handbook of the U. S. S. R., pp. 35-36.

**New York Times, May 19, 1925.

***Journal of Commerce, August 25, 1926.

****E. Varga "Fünf Jahre Konzessionspolitik" in "Aus der Volkswirtschaft der U. S. S. R." November, 1925, pp. 16-19.

CHAPTER VI

RIGHTS OF FOREIGNERS

THEORETICALLY, Soviet legislation respecting the rights of foreign nationals is inspired by two opposing principles. One is the recognition of the international solidarity of all workers. The other is the determination not to admit foreigners to positions of power prejudicial to the Soviet State. A foreigner is defined as a citizen of a State not organized in accord with the Soviet system. Foreigners enjoy equality before the Courts. "But they may be prosecuted for action against the Soviet State even outside Russia." (Par. 314, Crim. Code).^{*} In other words, if a foreigner commits a crime against the Soviet State even outside Russia, in case he comes before Soviet jurisdiction he may be tried according to Soviet laws.

The rights of foreigners, where an agreement exists between their government and the U. S. S. R., are regulated by the terms of that agreement. If the rights of foreigners have not been specified by agreement or by special laws, their right to move freely in the territory of the U. S. S. R., to choose a profession, to open and carry on business enterprises, to acquire property may be restricted by the central organs of the government.

Foreign firms may operate through establishments, agencies, etc., provided they obtain a permit from the Government. Foreign firms and foreigners are not allowed to own, or be part owners of, ships navigating under the Soviet flag, or joint-stock companies possessing such ships. Exception is made with regard to mixed companies.

Foreign vessels are not allowed to engage in the coasting trade. They may be allowed to do so only by way of concession and for a single journey, in cases where the Government is interested in it.^{**}

^{*}Report of British Trade Union Delegation to Russia, 1924, p. 81.

^{**}Commercial Handbook of the U. S. S. R., p. 39.

CHAPTER VII

SOVIET STRUCTURE OF INDUSTRY

DURING the last nine years the industrial structure of the Soviet Union has passed through four main phases. These must be borne in mind by the American who would understand the shift from nationalization to decentralization which has taken place in Russia and which affects trade relations with the rest of the world. These four phases are:

- (1) The short period of "Workers' Control."
- (2) The régime known as "Military Communism."
- (3) The introduction and development of the New Economic Policy, abbreviated to "NEP."
- (4) Denationalization of management, although not of ownership and ultimate control of industry.

The first two periods lasted from 1917 to 1921.

Early in 1921 the New Economic Policy came in. But during the first two years of the "NEP," state control was still very rigid. With 1923 the denationalization of management, but not of ownership and ultimate control, of industry took on greater speed and the new period of concessions to foreigners and leases of industrial enterprises was inaugurated.

THE PERIOD OF "WORKERS' CONTROL"

To grasp the present situation, it is necessary to pass swiftly in review the events and changes which led up to it. Our starting point is, of course, the revolution of 1917, when the workers seized the factories. But the abolition of private ownership of the means of production and the nationalization of industry, however disorderly, were in fact much less systematic and sweeping than generally believed. By the decree of November 14, 1917, "Workers' Control" was established over industrial production and distribution and over the finances of all industrial and trade undertakings, banks, companies, etc. About the same time, the Supreme Council of National Economy was created.

This first step of "Workers' Control" was intended to "put an end to autocracy in the sphere of economics in the same way as it had been abolished in politics." Not that the Bolsheviks desired to give up their program of expropriation. Lenin wrote at that time that they did not proceed with the nationalization of all industries merely because they desired to delay this sweeping measure a little longer.* The Bolsheviks assumed that after the revolution the owners of the industrial undertakings would continue to administer their factories and the Soviet State would exercise the control.**

*"Pravda" (Truth; official organ of the Communist Party), No. 83, 1918, "The Daily Problems of the Soviet Power."

**This point of view was set forward by Lenin in his "State and Revolution" written before November, 1917. But Lenin defended this position some time after the November revolution.

Nevertheless, the "Workers' Control" established November 14, 1917, was followed by sporadic confiscation of certain industries. From statistics† of Soviet authorities we learn that from November, 1917, until June, 1918, the confiscation of nearly 75 per cent of the nationalized enterprises was put through by local authorities, sometimes against orders from the central administration, which prohibited local authorities from carrying out nationalization.

THE PERIOD OF "MILITARY COMMUNISM"

From the middle of 1918 to the end of 1920 the attention of the Soviet Government was concentrated upon problems of national defense. The country passed through a period of foreign intervention, civil war and blockade. This fact must be considered in the evaluation of the economic policies pursued by the Bolsheviks during this period. They asserted that general nationalization of factories had become an imperative war necessity, comparable to the taking over of German-owned business by the Allied governments during the World War.

The decree of June 28, 1918, ordered the systematic nationalization of large industries. By November, 1920, 4,574 industrial undertakings had been nationalized, i.e. 65.7 per cent of the whole number.* But smaller industries were still dealt with only intermittently. Not until November 29, 1920, was nationalization decreed of all plants employing more than five workers with machinery, or ten without. By the same decree private property in small industry was legally abolished. But this action was almost immediately reversed by the advent of the New Economic Policy.

REGIME OF "HEAD CENTERS"

Under "Military Communism," the whole administration of industry was officially organized by the Supreme Council of National Economy. This Council was formed at the end of 1917 and has undergone many changes. It started with forced centralization. It has run the gamut of decentralization, centralization and then again decentralization. Its function was to co-ordinate, regulate and manage the industries of the country. Subordinate to the Council were the fifty-nine "Head Centers" for the different industries. There were Head Centers of coal, metal, textile, leather, building, electrical and other industries. This régime of "Head Centers" was largely occupied with supporting the war fronts and with supplying the immediate needs of the population. Dividing industry as it did into water-tight compartments, it proved to be absurdly rigid and unworkable. Head Centers were created along vertical lines, with no provision for lateral connections and no adequate arrangements for co-ordinating their work. Each Head Center carried on its work irrespective of the others and they were in continuous conflict.

†See "Das heutige Russland", 1917-1922. L. D. Frenkel-Verlag. Berlin, 1922, p. 5.

*O'Hara and Makeef: "Russia," 1925, p. 250.

At the beginning of 1921 it became evident that the confused and bureaucratic management of the nationalized industries by means of Head Centers had resulted in chaos. According to Soviet statistics, there were 2,000,000 "officials," among the 3,135,000 industrial workers in 1920.* The lack of coal and shortage of raw materials, the deterioration of machinery and tools, the decline in the quality of workmanship and the absurdly rigid form of organization brought factory operations almost to a standstill. Transportation was completely disorganized. The system of forced contributions, requisitioning and confiscation of agricultural produce had brought disorganization and disaster upon the peasant. The towns were practically blockaded by the country districts and the acute food shortage forced workers to quit the factories and return to their villages. Moreover, the world revolution which the Bolsheviks expected seemed far off. Instead they were threatened with revolts in their own country. The peasants sabotaged, the workers sabotaged; dissatisfaction was general. There was no food; there was no clothing; there was no fuel, no equipment for the factories; no raw material, no stores.†

THE INTRODUCTION OF THE "NEP"

Then came the revolt of the sailors at the Kronstadt garrison, on March 6 and 7, 1921. This was an unmistakable warning that the old Communist policy had to be abandoned. The uprising was ruthlessly suppressed, but it was hardly over when at the end of March, 1921, the Soviet Government adopted the New Economic Policy which was to influence every part of the national economy. By first substituting for the requisitioning of food several taxes in kind, and then a regular tax system, the Soviet Government changed the foundations of its food supply policy. By establishing new regulations, providing in certain cases for the leasing of State undertakings, in other cases for reorganization of industries directly managed by the State, it greatly modified its nationalization policy. By restoring the system of taxation and payment for services rendered by state and public institutions, it transformed its financial policy. At the same time it restored the credit system by reopening the State Bank, which was authorized to resume loan and deposit operations with private individuals and institutions. It restored to private individuals the right to buy and sell articles of prime necessity in the open market; it set up free co-operative organizations and re-established credit co-operation, as well as the Co-operative Consumers' Bank. At the heart of all these reforms, however, was the new industrial policy.**

"For three years," said Lenin, "up to the Spring of 1921, our plan was to revive our large-scale industries and to organize a system of exchanging their products with the peasants, while endeavoring to socialize agriculture. In

*O'Hara and Makeef: "Russia", page 252.

†Leo Pasvolsky's "The Economics of Communism," 1921, tells in detail the story of this period. See also A. A. Heller's "The Industrial Revival in Soviet Russia," 1922.

**International Labor Office: "Organization of Industry and Labor Conditions in Soviet Russia," 1922, p. 1.

order to revive our large-scale industries, we proposed to take from the peasants a certain amount of foodstuffs and raw materials as a sort of loan by means of requisitions.

"We are no longer attempting to break up the old social economic order, with its trade, its small-scale economy and private initiative, its capitalism, but we are now trying to revive trade, private enterprise and capitalism, at the same time gradually and cautiously subjecting them to state regulation just so far as they revive."*

And in his pamphlet, "Concerning the Food Tax," he wrote that "the only possible and sensible policy" is to "refrain from prohibiting and preventing the development of capitalism and strive to direct it in the path of state capitalism."

SYSTEM OF STATE CAPITALISM

But at the end of 1925 A. T. Rykof, Lenin's successor, in his report to the Moscow Communist Party said that to describe the present economic system as State Capitalism was erroneous, because there were no capitalists and also because all means of production belonged to the Government of Workers. Using Lenin as authority and citing from different sources by Lenin, he concluded:

"Ours is a policy of State Socialism where side by side with purely Socialistic (state) enterprises, there exist semi-Socialistic undertakings (co-operatives) and purely private enterprises—all of which are, however, controlled by the Socialist State of the Workers. We must, therefore, not only realize the Socialist nature of our state industries, but we must also make clear their relations to others. The successful struggle with these other systems represents the measure of success of Socialism. This struggle takes place within a sphere of 'Free Trade,' 'a money economy' and a solidarity of private industry with that of the State. This means that we must build our Socialism in such a manner as not to frighten the peasants away from the Government, but to have them support the Government. Also, from this point of view, the 'NEP' is but a method toward Socialism by means of co-ordinating the private economic interest of the petty bourgeois, semi-capitalistic and capitalistic, with the Socialist interests of the Proletarian Government."**

In his previous utterances, however, Premier Rykof followed Lenin's lead in calling the present Soviet system "state capitalism." But by whatever name it is described, this system is based upon the New Economic Policy, the framework of which may be found outlined in several decrees.†

The Soviet Government retained the principle of nationalization of industries. But the decree of July 7, 1921, exempted from future nationalization or municipalization all small enterprises, namely those employing not more than twenty persons, and declared that all citizens of 18 years of age and over have a right to engage freely in home industries as well as to establish small industrial enterprises.

*"Pravda", November 7, 1921. Article by Lenin.

**Report of A. T. Rykof to the XIV. Conference of the Moscow Communist Party. "Pravda", Nos. 280 and 281, 1925.

†See International Labor Office: Op. cit., pp. 1-3.

Moreover, the decree of the Council of the People's Commissars of May 17, 1921, which suspended the application of the decree of November 29, 1920, on the nationalization of industries, provided that the nationalization of small undertakings of this class, to be legal, must actually have taken place before May 17, 1921.

EXCEPTIONS TO NATIONALIZATION

Nationalization was not considered to have taken place unless (a) the enterprise had been taken over by government bodies in return for a certificate of acknowledgment or similar document; or (b) the enterprise had been administered by the State or a manager appointed by it; or (c) the cost of working or protection of the enterprise was in fact borne by the State. In all other cases small establishments were to be considered the property of their former owners, and therefore could be operated by them (Section 3). The same decree provided that enterprises belonging to small industry and artisans should be restored to their former owners if they had been nationalized without the authorization of the Supreme Council of National Economy (Section 4). Small home industrial enterprises and those employing fewer than twenty workers, not actually managed by the State, might be restored to their former owners on the request of the latter, by a decision of the Presidium of the Supreme Council of National Economy and with the approval of its local organs.

The large and medium scale industries remained under the immediate management of the State and its organs. But the government has been obliged to make important changes in their organization and administration. The State found that it could not carry out its obligations toward the industries, which it was to supply with raw materials, and with fuel and foodstuffs for the workers. So it decided to proceed with the decentralization of industry.

Under the immediate management of the Supreme Council of National Economy and its local organs we find the undertakings of national importance, large and well equipped plants, chiefly those which serve the so-called heavy industries, coal, iron, metallurgy, and transportation. With respect to other undertakings, the state ceased to supply them and they had to satisfy their needs in the open market. The undertakings coming within this category might be leased.

STATUS OF LEASES

By decision of the Council of People's Commissars of July 5, 1921, the enterprises under the control of the Supreme Economic Council and its local departments may be leased on definite conditions to co-operative societies, companies and private individuals. The period of the lease depends upon the value of the enterprise, its condition, etc., and is fixed by mutual agreement.

Furthermore, the decree of November 23, 1920, provided for the possibility of conceding certain nationalized undertakings or State

property to foreigners and under the decree of March 22, 1923, the exploitation of enterprises of any size may be denationalized for a period by concession. Finally, concessions known as "mixed companies," i.e. those in which the Government participates, have been formed. (See Chapter V.)

The large and medium scale industry may be divided as follows:

- (1) Establishments managed and entirely supplied by the State with the capital required for the purchase of the necessary raw materials, fuel, etc.
- (2) Establishments managed and partially supplied by the State.
- (3) Establishments managed but not supplied by the State.
- (4) Establishments operated by private persons under leases and not supplied by the State.
- (5) Establishments and nationalized property which may be conceded to private persons and operated under concessions.
- (6) Establishments and nationalized property managed by "mixed companies."*

The semi-independent operations do not concern us here; but rather the State trusts and syndicates. Their rise and especially their later development mark the shift toward decentralization.

THE SHIFT TO DECENTRALIZATION OF MANAGEMENT

Since the introduction of the "NEP," nationalized industry has been conducted largely by these State trusts. The supreme authority over industry is the Council of Labor and Defense (Sto)** and its provincial and district economic authorities (Ekoso)*** and the decrees concerning industry are executed through the Supreme Council of National Economy.

SUPREME COUNCIL OF NATIONAL ECONOMY

The Supreme Council of National Economy is headed by its chairman, who has the rank of a People's Commissar. He works with a Presidium (Collegium). The Supreme Council acts through two boards:

- (1) The Central Administration of the national industry which is a general administrative management of the whole industry.
- (2) The Chief Economic Administration, which performs the function of a Ministry of Industry, in regulating industrial activities.

*International Labor Office: Op. cit., pp. 5-6.

**An important executive body of Government. The post of President of the Council for Labor and Defense is held by the President of the Council of People's Commissars.

***The purpose of the "Ekoso" was defined by a decree of June, 1921, to unify and develop the activity of all local economic organs to coordinate their work, and "to insure that they meet the problems not only as may be dictated by local interests, but also by those of the State as a whole."

Subordinate to the Supreme Council of National Economy are the State Councils of National Economy of the Constituent Republics of the Union, under whose direct jurisdiction are the large industrial enterprises of the various Constituent Republics.* The structure of the State Councils of National Economy in the various Republics of the Union is not identical. This is due to various economic differences of the respective Republics.

THE TRUSTS

The "trust" is an amalgamation of several conveniently located plants in the same branch of industry or a combination of plants producing different products which are subsidiary. The trusts aim at reconstructing nationalized industry and commerce on a business basis. The former extreme rigidity of state control has been relaxed. Each factory is separately managed, but is not supposed to buy its own raw material. It must not conduct its own financial operations. It is not to sell independently the goods it manufactures. The financial and commercial work is to be done by the trust.**

At first the management of these trusts was restricted and over-regulated, but before long they began to enjoy a greater degree of autonomy. Finally, a decree of May 23, 1922, recognized the trusts as "juridical persons." (*établissements publiques personnifiés.*)

There are both central trusts and local trusts. The former may be organized by the Supreme Council of National Economy and the latter by the State or regional Councils of National Economy.

LEGAL STATUS OF TRUSTS

The position of the central trusts is regulated by the decree of April 10, 1923, and that of the local trusts by decree of July 17, 1923. The first decree recognizes the autonomy of the trusts in all that concerns their operations and in accordance with their articles of association. A "commercial basis" for their operations, i.e., the making of a profit, is substituted for the previous "economic basis," which required only ordinary bookkeeping. The State renounces all requisitions or even requirements from the trust incompatible with commercial prosperity. On the other hand, the Government is not responsible for the liabilities of the trust, or loss of capital, other than debts, from State offices.

The trust is guaranteed against loss due to State interference and the State is entitled to a net profit only after provision for a sinking fund and the putting aside of 20 per cent for reserves, as well as to any assets after liquidation of all liabilities. The statutory capital is

*For description of Soviet government structure see footnote, p. 15.

**Russia—official report of the British Trade Union Delegation to Russia and Caucasia, November and December, 1924, pp. 43-54.

divided into basic capital and working capital. Basic capital cannot be alienated or mortgaged except by consent of the Supreme Council of National Economy. These provisions give the trust a basis for credit which is, however, restricted to its working capital, against which alone creditors can proceed (Article 17). Buildings, machinery and equipment generally cannot be used as security. A government guarantee is substituted for debentures. Private capital is excluded from holding shares, though an exception is made in favor of co-operatives.

The directors of the trust are appointed for one year by the Supreme Council of National Economy. The division of powers between the directors and the Government (Supreme Council of National Economy) is based on the principle that the State assumes the authority assigned in a limited company to the general meeting of shareholders, elects the directors, etc. Auditors are appointed jointly by the Supreme Council of National Economy and the competent Trade Union. The State, like the general meeting, has authority over financial operations and all questions affecting the constitution and control of the trust. All trusts must be members of the Bourse and register their transactions (Article 48, decree of April 10, 1923). The Supreme Council of National Economy, the Council of Labor and Defense and the Commissariat of Foreign and Domestic Trade may in "cases of necessity" fix the selling price of their products (Article 48). Conditions being the same, trusts must give preference to State organs and to co-operatives over private enterprises.

THE SYNDICATES

The syndicates were started in February, 1922, with the formation of the Textile Syndicate, the constitution of which served as a model for other such institutions. At first syndicates were formed mainly in the "light" industries. With the second half of 1922, industries more dependent on the State than on the private market were syndicated. At present the more important industries, such as textile, oil, hides, tobacco, metals, etc. are organized under this system.

The syndicate is a combine of trusts. It is an association of enterprises under a central management which has a "juridical personality." The syndicate is supposed to secure the better coordination and cooperation of the trusts in financial-commercial operations, in the sale of their products, and in the acquisition of raw material.

The syndicates are directly under authority of the Supreme Council of National Economy. This authority is concerned with the syndicalization of any trust, with the confirmation of directors and auditors, the appointment of its own auditors, the audit, i. e., the inspection of accounts, the confirmation of distribution of dividends, and with dissolution. The syndicate usually acts through an agent of its members and consequently does not require working capital.

STATUS OF LEASES

We noted above that the decree of the Council of People's Commissars of June 5, 1921, granted to co-operatives and other such organizations, as well as to private citizens, the right to lease state-owned industrial enterprises for the purpose of their exploitation. The lessees are responsible for the property turned over to them, and in case they damage it, they may be sued. A contract may be voided before the expiration of its term only by the courts. All enterprises may be leased, except those which can be run by the state on a self-supporting basis, or those which, for one reason or another, it is important to keep directly in the hands of the Government.

THE STATE PLANNING COMMISSION

There is also the so-called State Planning Commission (Gosplan). This institution was organized to co-ordinate production and trade and has its central office in Moscow with branches and agents all over the country. It has no administrative or executive powers, but its advisory influence is very great. The approval of the Gosplan is generally necessary for the framing of any economic policy and its advice is sought by the administration before provision for any State enterprise or expenditure is made.

The Central Council of the Gosplan consists of 200 experts and it controls a whole body of sub-commissions, each dealing with some specific department. This body of civil servants collects daily statistical and technical data and then works out, in cooperation with various departments and in consultation with the Commissariat of Finance, new plans and new schemes for re-equipment and reconstruction of the economic life of the country.

SUMMARY

This organization of industry is not working smoothly and is still in a state of flux. While it seems essential in a country which has nationalized its basic industries to have a centralized general policy, which is shaped by the Supreme Council of National Economy, the different organs of industrial policy-making have not yet become fully coordinated. There is still a great deal of confusion among the different bodies necessary to set an undertaking going and to regulate its activities. The industrial undertakings are subject at the same time to innumerable local, regional and central bodies, as for instance, the regional Councils of National Economy and the local Economic Conferences, the State Councils of National Economy and the Provincial Economic Conferences, the Supreme Council of National Economy and the State Planning Commission, the Council of Labor and Defense and the Commissariat of Finance. But in the struggle between the theories of the Communist Party and actual conditions, economic realities are forcing a change toward business methods.

CHAPTER VIII

RATE OF INDUSTRIAL PRODUCTION

BOTH as an index of Russian needs for machinery and industrial equipment, and as a register of its most serious handicap in economic recovery there should be set down three facts: that the Union of Soviet Socialist Republics lost well toward a third of its industrial establishments by the war settlements; that it allowed much of the remainder to run down during its experiments in communism; and that the large scale plans for the future depend to a large extent on its ability to secure outside capital.

As a result of war, revolution and secession, about 225,000 square miles of country with a population of about 25,000,000 passed out of the control of Soviet Russia. In this territory, it is estimated, were found over 30 per cent of all industrial establishments, with 17 per cent of the industrial workers and 18.6 per cent of the entire industrial output of the country.* This does not include Finland, with an area of about 150,000 square miles, and a population of 3,400,000, since this country was economically autonomous before the war.

DISORGANIZATION OF INDUSTRY

During the first three years of the Soviet régime all basic industries reached a state of complete disorganization and by 1920 it was evident that further development in the same direction would lead to their complete collapse and ruin. In 1920 the coal output had declined to about 27 per cent of the pre-war output, iron ore to 1.5 per cent, cotton spinning to 5 per cent, sugar manufacture to 5.8 per cent, chemicals to 5.12 per cent, footwear to 11 per cent.

With the end of the civil war and the possibility of engaging in peaceful organization work, there came a considerable revival of industry, and by 1921 this revival was reflected statistically. About the middle of the year, however, there occurred a most severe fuel crisis when the Donetz basin stopped operations, thereby causing practical suspension of activities in the leading industries, dependent upon coal as their main source of power.

During the latter part of 1921 the effects of the coal crisis may be said to have been overcome and industrial operations show much less of a decline and in some cases even an increase over 1920. The crop failure and famine of 1921 and even more the financial crisis of that year had quite a retarding effect upon industry.

INDUSTRIAL REVIVAL FOLLOWS "NEP"

It was only about a year after the introduction of the New Economic Policy that a steady growth of output and a greater pro-

*Senate Documents on "European Currency and Finance" (1925), Serial 9, Volume II, p. 211.

ductivity per unit in virtually every branch of industry began. In the autumn of 1921 industrial production stood at less than 15 per cent of the 1913 output. During September, 1925, production was estimated by the Soviet leader Stalin to have advanced to 71 per cent of the pre-war output.

FACTS ON INDUSTRIAL PRODUCTION

In estimating the trend of industrial production in the Soviet Union we must bear in mind the following facts:

(1) Under the "NEP," the Government ceased to furnish nationalized industry in kind with the required raw materials, fuels, etc., so that this industry had to take upon itself the function and call of securing at the proper time all that was required for the operation of the plants.

(2) On the other hand, the Government, in view of the deficit operation of these plants, had to furnish them with the necessary funds for the purchase in the open market of the required raw materials, fuel, etc. This made necessary the regular financing of the basic industries by the Government in the shape of subsidies and long-term loans.

(3) Therefore an increase of output does not necessarily mean that the state industries have as yet succeeded in working economically.

(4) Since the war and especially since the revolution, industries in the Soviet Union have been living on their capital. It took a relatively short time to use up the available reserves and stocks of raw materials, while fixed capital, i.e., plants and machinery, because of lack of means of renewal and repair, showed a high rate of depreciation and in many cases made necessary the closing of the plants. Since for years Russia had no commercial contact with the industrial nations, imports of new machinery or parts were impossible, and in case of breakage or where repairs were necessary, very often machines or parts were transferred to other plants.

CENSUS STATISTICS

The Census of March 15, 1923, found 165,781 industrial establishments in all towns and cities of the 83 governments of Soviet Russia which would fall into at least one of the three following categories:

- (1) Specially fitted or adapted quarters.
- (2) Use of a mechanical motor.
- (3) Employment of hired labor.

The number above given is probably approximately correct, as the total number of licenses issued to industrial establishments during the first three months of 1923 was not more than 215,302. This number included establishments in the open country and also those operating without hired labor.

STATE AND PRIVATE INDUSTRY

How far in point of numbers privately owned industrial establishments have grown is shown by the Russian census figures of 1923. But the figures also reveal how relatively unimportant these private concerns really are in the nation's total industrial output. Of the 165,781 industrial establishments listed no less than 147,471 or 88.9 per cent were owned privately; 13,697 or 8.3 per cent were state enterprises (this number corresponds to the pre-war number of establishments having sixteen or more workmen and subject to factory inspection); and 4,613 or 2.8 per cent were co-operative enterprises.*

Measured by the number of the workers employed, however—a good index of relative importance—government-owned establishments had a monopoly—84.1 per cent. Only 12.4 per cent of the workmen were employed in privately owned plants and 3.5 per cent in co-operative establishments. The average number of workers per industrial establishment was 155 for those State-owned, 15 for co-operative establishments and 2 for those in private hands.

In the last three fiscal years 1923-24 to 1925-26, the respective shares of the state and co-operative industries, petty (Kustarni) industries, mostly private and in part co-operative, figured in percentages in the whole Soviet Union's industrial output (in values) are as follows: **

In Per Cent

Year	State	Co-operative	Petty Private Industry
1923-24	63.5	3.6	29.4 3.5
1924-25	67.8	4.9	24.2 3.1
1925-26	71.5	4.6	21.2 2.7

In the last two years the gross output per worker was higher in the private industry than in government plants. The "Trade and Industry Gazette" (Moscow) of May 16, 1926, carried a table showing that in 1923-24 the average value of the output per man in private plants employing 39,400 workers was 64.3 per cent higher than the average value of the output per man in state industries employing 1,432,600 men, while in 1924-25 it was 87.4 per cent higher in private plants with 38,300 workers than in state industries with 1,761,900 men.

*Of the 13,697 nationalized undertakings about one-third were leased, about one-third had suspended operations and about another one-third (4,212) were grouped in trusts, combines, syndicates, etc. In October, 1923, this last group numbered 426 and comprised 3,470 undertakings with 881,306 workmen, i.e. 82 per cent of the total number are workmen employed in the nationalized industry covered by the census statistics, and 66 per cent of the number (1,342,716), employed by all nationalized establishments (including communal and other local enterprises).

**Journal of Commerce, August 25, 1926.

REVIVAL AFTER "NEP"

The fall in industrial production and the improvement after the introduction of the New Economic Policy has been calculated by various statistical departments of the Government.

The following table of the "Gosplan" (State Planning Commission) covers industry as a whole, whether large or small scale, including domestic industry and handicrafts. The figures are intended to show the total value of industrial production, including both the portion of the product which enters the market as an object of trade, and the portion that does not. The marketed portion has included for some years goods delivered in payment of taxes in kind as well as various deliveries in kind made during the period of War Communism. These data refer to the territory which now constitutes the Soviet Union and covers the period extending from 1913 to 1924-25, thus including the years of the war and the eight years of Soviet rule:

TABLE V

VALUE OF INDUSTRIAL OUTPUT

(In gold rubles, at 1913 prices; 1 ruble equals \$0.5156)

Year	Industrial Output (In Millions of Rubles)	Population of the Soviet Union (In Millions)
1913	7,000	140
1914	7,080	141
1915	7,860	143
1916	8,400	144
1917	5,320	142
1918	2,340	140
1919	1,850	136
1920-21*	1,300	132
1921-22	1,970	130
1922-23	2,570	132
1923-24	3,340	134
1924-25	4,350	137

*Beginning with 1920-21, year ending Sept. 30.

But the figures given in this table are too inclusive and can hardly give a reasonably accurate panorama of the present status of Soviet industry. The statistics for the large scale industry are more accurate, and from those we can get a clearer view of the degree to which the value of the present output approximates the production of wealth in 1913.

It has been calculated that the gross value of commodities produced in 1913 by the large scale industries, employing 2,599,011 workmen, including all enterprises with mechanical equipment employing 16 workers and over and those without mechanical equipment employing 30 workers and over, amounted to 5,620,800,000 pre-war gold rubles.

The following table gives the total number of workers employed and the gross value of commodities produced by the state-owned large scale industries for 1923-24 and 1924-25 as compared with large scale industries for 1913.†

TABLE VI
LARGE SCALE INDUSTRIES
Comparison of Pre-War and Post-War Output

Year	Number of Workers in thousands	Per cent of 1913	Gross Value of Pro- duction in Billion pre- war Rubles	Per Cent of 1913	Gross Value of Pro- duction in Billion Tchervontsy Rubles	Comparative Output per worker, in per cent of 1913
1913	2599	100	5.62	100	.....	100
1923-24	1615	62.1	2.57	46	5.54	73.5
1924-25	1901	73.1	3.95	70	7.52	96.1

The year 1920-21 was the most difficult for the Russian industry. Only after the adoption of "NEP" and the introduction of new methods of compensation did production begin to increase. In 1924-25 piece work was introduced wherever possible, and the productivity per head rose to nearly the pre-war percentage.‡

INCREASE OF PRODUCTION

That substantial gains have been made, in spite of the greatest obstacles, can be seen by a glance at the table on production of main industries (see table on page 44). Although still falling short of pre-war output, the trend of production shows great stability and continuous increase. This table indicates that 1924 gave a total coal production almost double that of 1921, the petroleum output was 63 per cent of the pre-war, the production of pig iron doubled that of 1923 and the production of iron ore for 1924 was six times as high as that in 1921. The 1925 figures indicate that production of coal increased from 938,000,000 poods in 1923-24 to 981,100,000 poods* in 1924-25 and the production of petroleum from 362,200,000 poods in 1923-24 to 424,400,000 poods in 1924-25. The figures for pig iron were 40,100,000 poods in 1923-24 and 79,600,000 in 1924-25. Martens steel increased from 60,200,000 poods in 1923-24 to 113,900,000 poods in 1924-25.

The cotton industry is rapidly approaching the pre-war percentage, "and consequently the demand for American cotton should increase if acceptable credit can be arranged, according to Agricultural Commissioner Schoenfeld at Berlin. American cotton, however, will meet with competition in Russia itself, and from nearby countries

†Official control figures quoted in "Aus der Volkswirtschaft der U. S. S. R.," November, 1925, pp. 105-107.

‡The Ekonomicheskaya Zhizn of November 14, 1925, estimated that in the state industries as a whole the average daily output per worker rose from 3.47 pre-war rubles in 1922-23 and 4.06 rubles in 1923-24 to 5.75 rubles in 1924-25.

*1 pood—36 lbs. About 61 poods—a metric ton.

such as Persia, Turkey, and Egypt, which before the World War supplied a considerable share of Russia's imports, according to the United States Bureau of Foreign and Domestic Commerce."*

TABLE VII
PRODUCTION IN CHIEF INDUSTRIES

	Coal mill. poods	Petroleum mill. poods	Iron Ore thou. poods	Gold poods	Platinum poods	Salt mill. poods	Pig Iron mill. poods	Martens Steel mill. poods	Rails mill. poods
1913	1,712	554.8	532,400	3,774	299.5	121.8	256.8	259.3	39.4
1914				4,056	298				
1915				2,936	206				
1916	1,994.5	602.1		1,860	150		231.8	260.8	
1917	1,813.6	522.6		1,885	115		184.5	188.0	
1918	730.4	231.1	1,686*	1,268	82		31.5	24.5	1.1
1919	511.4	267.9		399	75	12.8	6.9	12.2	2.2
1920	466.5	232.7	10,017	109	21.5	35.4	7.0	9.9	1.2
1921	520.0	245.3	8,347	83	13.8	61.4	7.0	11.2	1.0
1922	588.7	276.3	10,910	332	68.0	51.0	10.6	19.4	0.5
1923	659.8	315.1	26,078	700	94.3	61.5	18.3	35.8	3.8
1924	938.0	362.2	55,675	1,300		71.1	40.1	60.2	5.7
1925	981.1	424.4	128,200	1,700			79.6	113.9	

COTTON				WOOL**			
	Peat	Yarn Thous. metric tons	Piece Goods Mill. meters		Yarn Thous. metric tons	Piece Goods Million meters	
1916	83.0	1913	262.08		39.36		
1917	71.0						
1918	57.7						
1919	67.0						
1920	92.8						
1921	139.0	1921-22	51.6	337.2	10.8	22.8	
1922	130.5	1922-23	74.4	582.0	14.52	21.6	
1923	134.6	1923-24	102.0	835.2	19.32	28.8	
1924	155.8	1924-25	186.0	1490.4	27.60	49.2	

Figures for the years 1916 and 1917 from the Statistical Annual, 1918-1920.
For 1918-1924 from *Narodnoye Khoziastvo*, 1923-1924. (Economic Yearbook of the U. S. S. R.)
For 1925 from *Economicheskoye Obzorreniye*, Dec. 1925, p. 270.
Since 1921-22 fiscal years have ended September 30.
Metric tons converted to poods at the rate of one metric ton to 61.1 poods.
The gold figures from *Viestnik Finansov*, No. 11, 1924, p. 119, Dec., 1925, p. 185.

*Central Russia only.

**The cotton and wool figures refer to the State industries only and are taken from the *Economic Bulletin of the Conjunction Institute*, Moscow, December, 1925, p. 12.

SUBSIDIES AND LOANS TO INDUSTRY

Regarding subsidies it is stated that the state budget is playing a role of distributor of capital between the various branches of industry, taking profits from the trusts engaged in "light" industries and financing the "heavy" industries.

The subsidies to state industries and electrification during 1923-24 amounted to 161,106,000 rubles,** to which should be added loans extended by the banks during 1923-24 amounting to 510,700,000†. During 1924-25, the approved Government budget provided for the granting to the state industries of subsidies to the amount of 149,308,000 rubles and the total amount advanced by the banks to the industries was 915,200,000.† For the year 1925-26 state subsidies to industries were planned to an amount of 183,180,000 rubles.**

*United States, Agriculture Department: Foreign Crops and Markets, April 26, 1926.

***Vestnik Finansov*, (Financial Courier; monthly of the Commercariat for Finance), February, 1926, p. 210-11.

†*Vestnik Finansov*, November and December, 1925, p. 192.

CAPITAL OF STATE INDUSTRIES

The total working capital of the state industries of Russia proper and the Ukraine that had been organized in the form of trusts, in 1923, had been estimated† at 1,336,709,700 rubles, the fixed capital at 2,489,240,000 rubles exclusive of an amortisation fund of 189,199,700 rubles. In estimating the percentage put aside for amortisation purposes, it should be borne in mind that the fixed capital represents, not the present value of the machinery, etc., but what it originally cost.

For 1924 we have figures for the four main industries, representing from 65 to 70 per cent of all industries. The fixed capital for the fuel, metal, chemical and textile industries was estimated at 1,633,306,400 rubles, and their operating capital at 914,833,300. This figure does not include the electrical and food industries.

The principal industries to receive subsidies from the state were metallurgical, textile and coal mining. The principal debtors to the banks were Government trusts, syndicates and co-operative societies. It must be stated that the increasing demand for credit on the part of industry is due to the growth of production, in the face of the utter exhaustion of the old stocks of raw materials, especially marked in the metallurgical and in the textile, and more particularly the cotton, industry.

However, the so-called industrial credits include loans to finance marketing operations, especially credit extended to the so-called "syndicates," all of which would be more correctly classed under "trade" than "industry."

BANK LOANS

During the years 1923-24 and 1924-25 loans to industry by the five main banks (State Bank, Industrial Bank, Moscow Municipal Bank, Foreign Trade Bank and The All-Russian Co-operative Bank) show the following development as compared with loans to other branches of national economy (in millions of rubles).*

	1923-24	1924-25
Industrial enterprises	510.7	915.2
Trade enterprises	386.0	721.7
Credit enterprises	73.9	202.8
Transport enterprises	26.7	71.6
Other enterprises	31.2	158.6

Another important factor to be taken into account is the urgent necessity for the renewal of machinery and the construction of new factories. The Government planned to invest 935,000,000 rubles during 1926 for the restoration of industry. Out of this sum 668,000,000 were to be devoted to the renewal of machinery, 97,000,000 were to be devoted to the building of workmen's dwellings and 170,000,000

†*Narodnoe Khozaystvo* U. S. S. R. Vol. IV., 1925, p. 300-301.

**Vestnik Finansov*, February, 1926, p. 210-11.

to the construction of new factories. Later, because the agricultural export-surplus was inferior to expectations, the figure was reduced to 746,000,000 rubles, to be divided as follows: metal and electrical—26%; coal and oil—20%; textile, principally cotton—18% and an unspecified percentage for lumber and construction industries. Of course these figures are merely estimates of what the Government hopes to spend.

According to a report of F. E. Dzerjinsky*, the late head of the Supreme Council of National Economy, to the Fourteenth Moscow Communist Party Conference, the rate of growth of large scale industry is beginning to decline, due to the fact that industry had utilized the equipment left from the pre-revolutionary period and further progress is only possible through the construction of new plants and new machinery. This implies new capital, which is available only in small amounts in view of the failure thus far to attract foreign capital. And for the present foreign loans remain apparently the only rapid way of expanding Russian industry.

*Report of F. E. Dzerjinsky to the XIV Moscow Party Conference in *Izvestiya*, December 16, 1925.

CHAPTER IX

FROM ENFORCED BARTER TO LIMITED PRIVATE TRADE

WITHIN the space of ten years the basis of exchange of commodities has swung through three stages in Russia—from money economy to enforced barter; and then back, with various ups and downs, to the present freedom of trade wherein approximately half of the retail merchandising is in private hands.*

The co-operative movement, a distinctive development in pre-war Russia, which was enhanced by the Provisional Government in the early days of the March Revolution, has suffered various vicissitudes under Communist policy and has only recently been released from the stringent control and interference which cramped its functioning.

THE INTERNAL MARKET IN PRE-WAR RUSSIA

Domestic trade conditions were favorable, in pre-war Russia, due to the continuous growth of the internal market. The World War brought about an almost complete blockade of the Russian frontiers, stopping the import of foreign goods, which during 1909-13 averaged 1,139,600,000 rubles. Russian trade was the first to feel the devastating influence of the war. As early as 1914 there became apparent a general shrinkage of the bulk of commodities circulating in the open market. The army, which gradually rose to 15,000,000 men, absorbed an immense portion of the national product. In 1914-15 the Government had to purchase 5,600,000 tons of corn and grain for the army. In 1915-16 the quantity exceeded 8,300,000 tons. In 1916-17 the Government found that at least 16,500,000 tons were required—almost the whole of the market supply in Russia.** Altogether, after a brief downward tendency of prices early in the war, food prices began to mount and soon a food crisis was at hand. As a consequence of enemy occupation and also of political and economic conditions, the cultivated area had distinctly diminished. The amount of grain on the market diminished even more markedly. From the second year of the war the village began to feel the emptiness of the market, and refused to part with its products in exchange for paper money with which it could buy practically nothing. According to Professor N. D. Kondratyef, the average amount of grain in the market annually in the period 1909-13 was 1,100,331,000 poods† while in 1914 it fell to 802,789,000 and in 1915 to 542,099,000.‡

But another important source of trouble was the disorganization of the system of transportation. The war had crippled the railway

*A searching inquiry of this subject is to be found in the volume of the International Labor Office on "The Co-operative Movement in Soviet Russia," 1925.

**O'Hara and Makeef: "Russia", 1925, p. 177.

†One pood equals thirty-six pounds. About 61 poods equal a metric ton.

‡L'Union Sovietique et La France, Moscou, 1925, p. 131.

distribution of the available food was insufficient and town and country began to suffer from the cutting off of supplies. system, which at its best was inadequate. As a result the means of

THE REVOLUTIONARY PERIOD

In 1917 the crisis came. The depreciation of the currency, the rise in prices, low wages, speculation and other such factors aroused public opinion, which demanded that the Government take decisive steps toward the regulation of trade in order to combat the high prices and secure supplies for the needs of the population. Government regulation was directed to the grain market and later to other branches of trade.

With the revolution of March, 1917, regulation of distribution of goods became even more widespread. A decree of April 29, 1917, introduced ration cards in all cities and in settlements of city character. No supplies were given out without cards. Later, by the decree of July 7, 1917, the Minister of Supplies was authorized to take steps toward supplying the population with textiles, food, kerosene, soap and other necessities. Although this law was not carried out, by the time the Bolshevik revolution came there was not much left of private wholesale trade.

THE BARTER YEARS

The rise to power of the Communist Party led immediately to the development of exchanges in kind, i. e., to a system of barter. But the complete disorganization of the economic system which followed the Bolshevik revolution made normal exchange practically impossible, and the Soviet Government attempted to replace direct exchange by another system regulated and controlled by the State. A decree was issued on April 2, 1918, regarding "the organization of exchange in order to improve the supply of cereals," under which some of the goods of prime necessity for the peasants were to be handed over to the Commissariat of Supply for purposes of exchange. These goods included woolen materials, shoes, matches, soap, agricultural implements, paraffin, various iron goods—nails, horseshoes, etc.,—glassware, crockery, tobacco, salt, sugar, tea. The Commissariat regulated the exchange of these goods for cereals and other foodstuffs, which were to be delivered in accordance with the state plans. The policy of securing supplies consisted almost entirely of confiscation and requisition. But the Government was unable to secure grain by such methods as the peasants demanded goods in exchange for their foodstuffs. Consequently the Government gradually set up monopolies which controlled nearly all goods in current consumption. Production was in the hands of the Supreme Council of National Economy, but distribution was the function of the Commissariat of Supply. The decree of May 27, 1918, instructed the Commissariat "to concentrate in a single organization the supply to the population of objects of prime necessity and foodstuffs, to organize

the distribution of these goods, and to prepare the way for the nationalization of commerce and industry." A special office, the "Glavproduct,"—Head Center for the distribution of goods—was set up in the Commissariat to carry out the distribution of goods through the consumers' co-operatives.

MODIFICATION OF BARTER SYSTEM

These first attempts to organize a system of State exchange were unsuccessful. The system did not put a stop to private trading or exchanges among individuals. In August, 1918, this policy was modified and it was decided that goods would be delivered only in exchange for foodstuffs. The principle laid down by the decree of August 8-10, 1918, was "not a box of matches, not a pair of shoes, not a yard of calico—if there is not its equivalent in bread." The decree further provided that "industrial products and, in general, all goods which are not foodstuffs may only be exchanged for wheat and other goods such as hemp, flax, leather, etc.," and assigned to the co-operatives certain duties in connection with the system of commodity exchange. Under the decree of September 14, 1918, the co-operatives were compelled to distribute among the population the materials, garments, etc., which they had in their stores.

Up to this time the freedom of exchange was merely much restricted. But the decree of November 21, 1918, on state organization of supplies, declared free exchange illegal. All products were to be handed over to the Commissariat of Supply and wholesale co-operative and state warehouses and stores. Co-operative and Soviet shops were established to distribute goods. To obtain goods, every citizen had to register at a given shop included in the system controlled by the Commissariat. The entire co-operative movement was in effect put under the orders of the same Commissariat. Under the decree of March 20, 1919, the agricultural and craft co-operatives became suppliers to the Commissariat of Supply, while the consumers' co-operatives were now the sole commercial undertaking in the country and the principal distributive agents of the Commissariat of Supply.

SYSTEM OF COMPULSORY EXCHANGE

Beginning with the latter part of December, 1920, certain categories of the population received foodstuffs and other necessities free, but even when the recipients of goods were charged for them, the transaction was not a sale. Goods were being delivered at cost price and sometimes even below it.

At the beginning of 1921 the country began to feel acutely the effects of the system of requisitioning and confiscating agricultural produce. Because of the abolition of free trade, the peasants refrained from producing anything in excess of their own needs and surplus crops were concealed by them, to avoid requisition. For even when the requisitioned products were paid for on the spot, it

was almost impossible for the peasants to purchase manufactured articles. As a result, as noted elsewhere, the city workers commenced to feel the lack of sufficient food as acutely as the peasants felt the lack of sufficient clothing. While during 1918-1920, years of civil war, the peasants generally submitted very reluctantly to requisitioning, now, with the disappearance of the military crisis, they demanded vigorously the abolition of the system of requisitions and of compulsory exchange. The system based upon compulsory exchange and state supply had proved unworkable.

When the tenth Congress of the Communist Party convened in March, 1921, it recognized the necessity for the abolition of the system of forced levies of agricultural produce, and the re-establishment of trade. In an address to this Congress Lenin said: "We know that only an understanding with the peasants can preserve the social revolution in Russia, so long as revolution has not broken out in other countries. . . . Our resources are limited, but we must satisfy the middle-class peasants."*

ABOLITION OF SYSTEM OF REQUISITIONING

The tenth Congress approved the proposal of the Central Committee of the Party that the system of requisitioning the peasants' surplus produce be replaced by a tax in kind and that this tax be lighter than the forced levy. Once the tax in kind had been paid, the peasant would be free to use or dispose of the produce remaining in his possession. The proposal was published on March 21, 1921, in the form of a decree entitled: "Introduction of the tax in kind in substitution for the forced levy upon foodstuffs and fodder."**

The decree restored the freedom of local retail trade, to be carried on either through the co-operatives or directly in open markets and fairs. But the Government had no intention of permitting complete freedom of trade. State commerce was to be reorganized and extended. At first the Government inaugurated a system of exchange in kind or "exchange of goods" as it was called by the authorities. The State had to acquire stocks of articles and exchange them for the agricultural produce needed by the townspeople. This policy was to be executed by the co-operative system.

The Commissariat of Supply was to manage and control the exchange system. But the Commissariat of Supply did not really hold the stocks recorded in its registers and what it had did not include goods required by the peasant. Distribution was badly organized. Work was constantly being held up by delay in providing wagons and by prohibitions and formalities of all kinds, and the peasant, from whom it was hoped to obtain provisions, himself at this time lacked bread. Furthermore, one of the first effects of restoring freedom of local exchanges was to bring into the open private trade which had never come to a standstill even when it was entirely illegal. For

*International Labor Office: "The Co-operative Movement in Soviet Russia," 1925, p. 80.

**Ibid., pp. 81-83.

years the private trader had been acquiring illegally the means for adapting himself to the new conditions. When private merchants were allowed to carry on local retail trade, the enterprising small trader was to be found everywhere and the system which gradually took root was exchange upon a money basis, and beyond the bounds of local trade. The system of compulsory exchange ended in utter failure.

LIMITED FREEDOM OF COMMERCE

The compulsory form of exchange was replaced by a limited freedom of commerce which was to extend only to small commercial operations. All wholesale operations were to remain in the hands of the State and the Government intended to control and regulate commerce in general. For that purpose the government set up special organizations.

A Central Commercial Service, attached to the Supreme Council of National Economy, was created on December 21, 1921, to facilitate the supply of the necessary materials and machinery to nationalized industries. This Commercial Service had to act as intermediary among the various organs of nationalized industry, to purchase in the open market commodities needed by state industries and to serve as a link between nationalized industry and the great mass of consumers by making wholesale deliveries to the co-operatives and to private undertakings.

Besides the Central Commercial Service there were a large number of commercial sections, which were either purely state undertakings or of a mixed character, including private capitalists. These commercial departments were attached either to state institutions or to state trusts in nationalized industries. Their main duties were to centralize, purchase and market their produce either at home or abroad, to obtain raw materials and agricultural produce, and to supply the population with products of good quality at moderate prices. In a short time every institution set up its own commercial service and all these services were in competition with each other.

TRADE COMMISSION

On May 9, 1922, a Commission on Domestic Trade (Comvnutorg) was set up and attached to the Council of Labor and Defence. The Domestic Trade Commission was empowered to regulate and control trade. At first it received only general powers of supervision, the actual regulation of trade in the provinces being entrusted to the provincial and regional economic conferences. Later, by a decree of October, 1922, the Commission was instructed to regulate prices and to compile a list of commodities. Its rulings on prices were binding on all state undertakings and institutions.*

*International Labor Office: Op. cit., p. 156.

The new legislation aimed to facilitate the commercial operations of state undertakings. The state gradually ceased to furnish these undertakings with supplies and they were obliged to rely upon commerce alone for their working capital. Thus they came to regard the private traders and the co-operative system as their dangerous competitors.

GROWTH OF PRIVATE TRADE

Nevertheless from the end of 1922 private trade not only maintained its position but encroached upon co-operative business and even upon that of the state. During 1923 private capital made its way into wholesale trade, and by 1924 private traders were progressively supplanting both the state and co-operative trading bodies. The private merchant gained in villages and towns, in retail and wholesale trade. Statistical information of commercial establishments compiled by the Central Statistical Department at the close of 1923 gives the number of state commercial undertakings for 1922-23 as 11,915 (2.6 per cent of the total number of undertakings); the number of co-operative undertakings as 27,678 (6.1 per cent of the total number of undertakings); and the number of private commercial undertakings as 420,366 (91.3 per cent of the total). And for the second half of 1923 the figures of the Central Statistical Department, covering various regions of the Soviet Union, showed that everywhere private undertakings constituted nine-tenths of the total.* In the towns 94 per cent of the commercial undertakings were owned by private capital. Measured, however, by the total trade turnover of the country in 1922-23 the share of private capital was not quite 44 per cent.

At the beginning of 1924 the Communist Party realized that commerce was fast slipping from the hands of the Government. Several investigations revealed that the success of private traders was largely due to the peculiar conditions which made it possible, for example, for a private merchant to buy goods from one state organization and resell them to another. For these reasons the Government determined to fight private trade—a determination strengthened by the rapacious character of the private traders.

COMMUNIST REACTION AGAINST "NEP"

From the middle of 1924, the Communists were much occupied with proposals for checking the expansion of private capitalists in commerce. A complete revision of the system set up by the New Economic Policy was demanded. The new phase might be called the Communist reaction against the "NEP." One group of Communists urged that the state commercial bodies and the co-operatives must be reorganized so that private trade be controlled through them. It was demanded that the state commercial bodies supply the chief needs of the population more adequately and economically, that the private traders be prevented from absorbing for their own benefit so large a percentage of the national income and that they be ousted from their function as intermediaries between the towns and country

*International Labor Office: Op. cit., pp. 259-261.

districts. Moreover, the state organizations were to dislodge private merchants from the wholesale trade.

NEW COMMERCIAL POLICY

The thirteenth Communist Congress held in May, 1924, gave expression to the new commercial policy. It refused to follow those who demanded that free trade be entirely abolished and decided to adopt certain measures to limit the share of private capital in trade. The Congress stated that "the market cannot be captured by purely administrative measures; it is better to strengthen the position of the state and co-operative trading bodies by placing at their disposal the goods needed by the mass of the population and by coordinating their work. We must not employ, in order to defeat private capital, measures which might reduce or disturb domestic trade, for such measures would have a bad effect on the economic progress of the Soviet Union."[†]

The Congress approved the establishment of a Commissariat of Domestic Trade, the chief function of which would be "to supervise regularly the relations between private capitalists and the economic bodies in the sphere of private trade, to render these relations systematic and favorable to the state and to suppress all attempts by private capital, whether overt or otherwise, to injure the trade and industry of the state or the co-operative movement (for example, by securing special facilities for credit and payment, or privileges in the choice of goods, etc.)."

The Congress also advocated continuation of the policy of lowering prices and of providing credit on especially easy terms to state trading bodies and co-operatives. By the decree of May 20, 1924, the principle of compulsory membership in the co-operatives was abolished. State maintenance of the co-operatives and their supervision was also abolished. Thus this decree wiped out the last traces of the Communist policy as applied to the co-operatives. But the fight against private traders was especially stressed from now on. In fact, with the reorganization of the co-operatives, the Communists aimed to abolish the spirit of competition between co-operatives and state undertakings and to establish a "united front" against the private trader.

But all efforts to drive out of the market private trade in general and private wholesale trade in particular proved in vain. It was estimated that 250,000 privately owned shops were liquidated in 1924 as a result of this new commercial policy toward private capital.* But many traders refrained from taking out a license and continued their business in other forms. That the private traders were not driven out of the market is proven by the fact that at the end of 1924 nearly 60 per cent of the retail trade was in the hands of private capital.**

[†]*Pravda*, June 1, 1924.

*International Labor Office: Op. cit., p. 326.

***Economicheskoye Obozreniye* (Economic Review, monthly, of the Council of Labor and Defense), July, 1925, pp. 146-147.

The new commercial policy had only the effect of aggravating the already precarious situation of the economic institutions of the country. State industry met with an acute shortage of capital which made it impossible to increase production, to make necessary repairs, to pay wages and to dispose of the manufactured goods. The state trading enterprises were faced with a slowing down of short-term transactions, shortage of working capital and the accumulation of large stocks of goods in the co-operatives. The latter bought large quantities of goods from state industries at special prices fixed exclusively for state organizations and resold them to private traders.

REVISION OF NEW COMMERCIAL POLICY

Before the end of 1924 it was generally held that the new commercial policy had a bad effect on the economic life of the nation and that it must be revised. Soviet leaders realized that the attempt to eliminate private trade had met with failure because of the lack of capital and because the state-organized trade was conducted on less efficient lines than the private trade. At a conference of the local institutions of the Supreme Council of National Economy, held in November, 1924, a resolution was adopted to the effect that industry should be able to make greater use of private capital. The whole question of commercial policy came up again for discussion at the plenary session of the Central Committee of the Communist Party in January, 1925. The majority of the Central Committee decided in favor, not of modifying, but of interpreting more reasonably, the decisions on the new commercial policy adopted in May, 1924, and expressed disapproval of the abuse of administrative measures for the suppression of private trade.

During the early part of 1925, several conferences were held at which the foundation was laid for further changes. At a conference held in Moscow on March 30, 1925, private traders were admitted for the first time. A Soviet official reporting to this conference emphasized the importance of placing private traders on the same footing as the co-operatives and state trading organizations in matters of bank credit, and of reducing the taxes imposed on private traders, and of guaranteeing the trader security for his business, his property and his person.* Other conferences pointed out the impossibility of driving private traders from the retail market. About the same time the Council for Labor and Defence decided to grant to private traders the rights and privileges asked for at the conference of March 30, 1925.** Finally, in May, 1925, only one year after its introduction, the new commercial policy was changed by the fourteenth General Congress of the Communist Party and subsequently by the Soviet Federal Congress. Resolutions were adopted recommending that economic policy should be directed towards developing relations with private traders and more well-to-do peasants. This, according to the official economic organ, denotes a tendency towards "official regulation of private capitalism and private capital."† The

*International Labor Office: Op. cit., pp. 333-334.

**Ibid., p. 354.

†Ibid., p. 354.

XIV Congress further decided that the co-operatives should "constitute the principal link between the state economic authorities and the small rural producer. Through them the state may acquire the most facilities for supervising and regulating small farming and trade throughout the country." But this resolution declared that "co-operative trade and state trade are not in a position to cope satisfactorily with the growth in business, so that a considerable place is open to the private trader."†

PRESENT STANDING OF PRIVATE TRADE

With these resolutions the Government inaugurated the Newer Commercial Policy. Under this régime attempts are still made to drive private capital out of the wholesale market. But the Soviet authorities seem to realize now that at least for the present it is quite impossible to carry on without the private middleman.

The part of private capital in the total trade turnover of the country for the past three economic years was as follows:*

Year	Total turnover of commercial and industrial undertakings** in million rubles	Turnover of private capital in million rubles	Turnover of private capital to total turnover in per cent
1922-23	7,719.0	3,392.2	43.9%
1923-24	13,832.5	4,965.2	35.9%
1924-25	21,400.0	5,200.0	24.3%

The turnover of private capital in trade increased 53 per cent in the three years, 1922-25; but that of State-owned and co-operative trading went up almost 400 per cent. The share of private capital in the wholesale trade has gone down from 21.4 per cent in 1923-24 to 11.9 per cent in 1924-25 and in the retail trade from 57.7 per cent in 1923-24 to 44.3 per cent in 1924-25.

But only one year after it was decided to break the back of private traders, private commerce was again granted a freer hand, and the latest legislation reveals that the trade policy of the Soviet Union, insofar as the middleman is concerned, is steadily edging over to that freedom of trade which is practised by the Western nations.

†International Labor Office: Op. cit., p. 354.

*From Report of the Torg-Prom (Industrial Bank) for the year 1924-25, page 80.

**Exclusive of volume of transactions connected with the realization of agricultural products and of peasant exchanges.

CHAPTER X

AGRICULTURE, THE PEASANT AND THE STATE

RUSSIA under Communism like Russia under Czarism is predominantly an agricultural country. Next to the United States the empire before the war was the world's greatest producer of cereals and if maize be left out of account it was easily first. Of the total population, almost six-sevenths are rural and agricultural in mode of life.

The Revolution was industrial in leadership but its result was not to change this proportion between country and city but rather to upset the old system of land tenure, breaking up the great estates into peasant-holdings. The effort of the Bolshevik government upon assuming power was to nationalize the land, but its consequence was to accentuate individualism in rural life. This reconstructed rural economy will be a great factor in the world's food markets of the future.

AGRICULTURE IN PRE-WAR RUSSIA

The main features of Russian agriculture prior to 1914 were: the enormous area under cereal crops; its low yield per unit of area due to the fact that cultivation was carried on with comparatively primitive implements and with few means of economizing labor; a land system which rendered technical improvement exceedingly slow. Russia's export was practically confined to wheat and barley, whereas her rye and oats were almost entirely retained at home, the former for human and the latter for cattle food.* But "it was the generally accepted opinion, both of Russian economists and of foreign students, that Russia was exporting more than the economic situation within the country warranted. . . . The agricultural output in Russia in 1913 (an ordinary year) amounted to only \$24.17 per capita. Of this amount about 12 per cent was exported, leaving a per capita consumption of approximately \$21. Larger exports were out of the question."**

The effect of the war was to cause some reduction of the area under cultivation. Moreover, by the end of 1916 Russia was already suffering from a shortage of artificial fertilizers and a still greater lack of agricultural machinery. The disorganization resulting from the war was greatly increased after the revolutions of March and November, 1917.

RUSSIAN AGRICULTURE AND THE REVOLUTION

From 1918-1920 Russia was again involved in war and in civil war. But apart from the civil war, the confiscation and requisition policy

*League of Nations: Report on economic conditions in Russia, with special reference to the famine of 1921-22 and the state of agriculture, 1922.

**Pasvolsky and Moulton: Russian Debts and Russian Reconstruction, pp. 102-103.

contributed much to the decline in agricultural production. To this must be added the decrease in population, particularly in the grain-growing regions. The entire area under cultivation in the boundaries of the Socialist Soviet Republics had fallen from 236,000,000 acres in 1916 to 153,360,000 acres in 1920, and fell again in 1921 to 132,300,000 acres.†

In 1920-21 Russia experienced the worst famine of the last thirty years. Thirteen million peasants could not get enough grain for seed, and that is to say that 13,000,000 peasants were absolutely destitute. Twenty-seven provinces, that is, nearly half of Russia, were in the grip of the famine.

Following the introduction of the New Economic Policy, which restored to the peasants the ordinary incentive of the market, it became possible for holdings which could not be farmed adequately, owing to shortage of labor, implements and cattle, to be leased to others who were better able to farm the land effectively. The prohibition of the "exploitation" of labor was also given up and the agrarian code permitted the use of hired labor.

RESTORATION OF AGRICULTURE

Under the new policy there came an immediate revival of agriculture, and in 1925 the area under cultivation in the present territory of the Soviet Union, exclusive of Turkestan and Transcaucasia, was 225,000,000 acres as against 236,000,000 acres in 1916.*

The figures of the Russian Central Statistical Bureau, as reported by the United States Department of Agriculture and given on page 59 indicate that the total area of the leading crops grown in Russia (wheat, barley, rye, oats, corn, potatoes, flax, hemp, cotton and sugar beets) is estimated for 1925 at 183,171,000 acres, which is 73,978,000, or 68 per cent, more than the area planted to these crops in the low year of 1922, but is still 38,187,000 acres, or 17 per cent, below the 1909-13 average.

"Wheat and barley, the most important of the cereal export crops, are still considerably below the 1909-13 average, while rye and potatoes, staple food crops of the peasants, show an increase. The industrial crops such as flax, hemp, cotton and sugar beets showed a great decrease in area during the years of the war and revolution. During the last three years, however, they have increased steadily in importance and have either nearly reached the pre-war average or, as in the case of flaxseed, hempseed and fiber, considerably surpassed it. The total area devoted to the industrial crops is small compared to the grains or potatoes, so changes in the production of these crops can have had little effect on the production of food and feed crops for Russia as a whole, although the local effect may have been marked."**

†League of Nations, Op. cit., p. 3 and *Economicheskoye Obozreniye*, December, 1925, p. 277.

**Economicheskoye Obozreniye*, December, 1925, p. 277.

**United States Agriculture Department: Foreign Crops and Markets, April 26, 1926.

PRODUCTION

From the table printed on page 59 we can gather that the revised Soviet estimate of the 1925 wheat production is 635,000,000 bushels or 16 per cent below the 1909-13 pre-war average. This production is more than three times as large as the 1921 or 1922 crops. Barley, which is also one of the principal crops grown for export, shows a total production of 263,000,000 bushels, which is 88,000,000 bushels more than in 1924, but 155,000,000 bushels below the pre-war average. The production of oats, although showing a steady improvement since the small crops of 1921 and 1922, is still 29 per cent below the pre-war level, the 1925 estimate being 660,000,000 bushels. On the contrary, the crops such as rye and potatoes which are largely used for home consumption and which form the main supply of food of the peasants, show a decided gain. The estimate of rye production is 776,000,000 bushels, or 4 per cent above the pre-war average. Potatoes show a still more noticeable growth, the 1925 estimate being 1,127,017,000 bushels or 52 per cent more than in 1909-13. This is in spite of the fact that Russia lost what was formerly some of her important potato area and which is now included in the new republics of Esthonia, Latvia, Lithuania and Poland. Corn growing shows a steady gain for the last four years. The 1925 production of 179,000,000 bushels was over three times as large as the pre-war average.

The industrial crops are showing a steady increase in acreage and production. The production of flaxseed totaled 24,288,000 bushels for 1925, which is 27.9 per cent above the 1909-13 average. Flax fiber, on the contrary, amounted to 578,000,000 pounds, or 30 per cent below the pre-war average. Both hemp seed and fiber show a decided increase, the 1925 production of seed being estimated at 28,121,000 bushels, 60 per cent over the 1909-13 average, and the 1925 hemp fiber crop at 992,738,000 pounds, or an increase of 54 per cent. The cotton crop for 1925 is estimated at 853,000 bales, or nearly double that of 1924, but still 100,000 bales short of the pre-war average. The production of beet sugar, which had declined from 1,557,000 tons, the pre-war average, to only 55,000 tons in 1921, also shows a decided comeback for 1925, totaling 1,029,000 tons.*

LIVESTOCK

The following table on the number of livestock from 1916 to the end of the fiscal year 1925** indicates that cattle and hogs are more numerous now than in 1916. Horses and hogs appear to be the only types of livestock that have not yet reached or passed the 1916 level.

Year	Horses	Cattle	Sheep and Goats	Hogs
1916	31,400,000	50,400,000	84,500,000	19,500,000
1924	23,854,200	51,420,300	78,439,600	17,671,400
1925	25,121,200	53,779,300	87,767,600	17,230,400

*U. S. Agricultural Department, Foreign Crops and Markets, April 26, 1926.

**Commercial Handbook of the U. S. S. R., 1926, p. 12.

The latest report of the People's Commissariat for Agriculture* places the gross grain crop for 1925-26 at 3,870,000,000 poods as against 2,800,000,000 poods in the bad year 1924.

TABLE VIII

RUSSIAN POST-WAR AGRICULTURAL PRODUCTION

Acreage and production of principal crops, average 1909-1913,
annual 1921 to 1925

Crop	ACREAGE*					1925	
	1909-1913	1921	1922	1923	1924	Preliminary Estimate	Revised Estimate
	1,000 acres	1,000 acres	1,000 acres	1,000 acres	1,000 acres	1,000 acres	1,000 acres
Wheat	74,209	b 38,313	b 22,240	b 34,034	46,014	b 47,089	
Rye	61,913	b 47,929	b 45,259	b 62,591	65,533	b 66,761	
Barley	26,193	b 15,715	b 7,904	b 15,332	16,966	b 13,265	
Oats	41,256	b 24,114	b 17,854	b 25,600	28,932	b 28,735	
Corn	3,246	3,106	5,408	4,171	5,037	7,774	
Potatoes	7,209	b 6,170	b 6,349	b 9,371	10,433	b 11,126	
Flax	3,165	1,972	2,160	2,318	2,864	3,577	
Hemp	1,493	1,312	1,444	1,446	1,775	2,059	
Cotton	1,190	296	140	397	1,196	1,617	
Sugar beets ..	1,484	287	435	611	860	1,168	

	PRODUCTION						
	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels
	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels	1,000 bushels
Wheat	758,941	b171,684	b202,368	b326,685	381,726	661,130	635,000
Rye	743,519	b345,423	b480,625	b734,337	679,068	c820,040	776,000
Barley	418,030	b100,826	b115,413	b211,733	174,765	274,716	263,000
Oats	924,918	b306,691	b347,167	b516,317	509,056	c701,731	660,000
Corn	52,185	45,575	81,188	85,594	94,300	176,461	179,000
Potatoes	740,190	b668,801	b718,493	b1,208,260	1,107,937	1,127,017	
Flaxseed	18,984	9,751	11,044	13,389	16,523	24,288	
Hempseed	17,586	10,929	14,704	16,875	16,563	28,121	
Flax fiber	822,369	631,023	703,819	513,926	625,225	578,000	
Hemp fiber ..	646,401	475,317	641,327	750,446	678,576	992,738	
Cotton	953	d 43	55	189	e 453	e 853	
Beet sugar	1,557	55	231	416	455	948	1,029

a. Estimates based on pre-war official figures showing the approximate acreage and production of the various crops within present boundaries. b. Does not include Transcaucasia and Turkestan for which figures are not available. c. Does not include Transcaucasia. d. Unofficial. e. Turkestan, Transcaucasia, Khiva and Bokhara.

*Preliminary estimates for wheat, rye, barley, oats, potatoes, sugar-beets, hemp area and fiber are as of July 15. See Foreign Crops and Markets, United States Agriculture Department, April 26, 1926.

Russian agriculture represents the bulk of the wealth of the country, and the fundamental problem of the Soviet Government is to increase production well above the pre-war total, for the peasant is demanding today a higher standard than before the war.

A few days after the Bolsheviks came into power they issued a decree for the nationalization of the land, and on February 19th this policy was embodied in an act.

*Russian Review, January 15, 1926, p. 21.

THE PEASANT AND THE STATE

The three outstanding results of the agrarian revolution ushered in by this policy are the large increase in the number of peasant landholders, the prevalence of small holdings and the individualistic tendency in the development of agriculture.

The proportion of all the suitable land of the European portion of Russia, with the exception of the Ukraine, which the peasants held in pre-war times, amounted to 76 per cent; in the Ukraine they held 55 per cent. After the October Revolution in 1917, the peasants have been holding from 97 to 99 per cent of the land in the European part of the Soviet Union, and in the Ukraine 96 per cent. Only about 3 or 4 per cent has remained in the possession of the State, such as Soviet estates, lands assigned to factories and workers' organizations, etc.*

But while the Russian peasant, as a result of the November revolution, has come into possession of the land formerly in the hands of the noble estate holders, and while he is no longer under obligation to render service in kind or share his crop from the land leased from the noble landlord, he is still under a disadvantage as a result of the Government's "price policy". He sells his wheat to the Government at a low price and has to pay a high price for manufactured goods.

Prof. L. N. Yurovsky in a recent study** estimates that on the basis of prices which the Government paid the peasant for rye and the prices which the peasant had to pay to a private village retail merchant for industrial products, during the latter part of 1925, the peasant had to part with the following amounts of rye in exchange for some leading commodities:

RYE FLOUR

(In terms of Russian funts)†

1925

Commodities	July	Sept.	Nov.
Shoes	472	771	945
Calico (per arshin)	11	17	32
Woolen cloth (per arshin)	168	226	395
Linen (per arshin)	29	39	71
Kerosene (per Russian funt)	1.8	2.5	3.1
Soap	6.8	9.5	11.5

This table also shows that notwithstanding the rise of the level of agricultural prices the disadvantage of the peasants in the home market has increased substantially. Thus for a pair of shoes the peasant had to give 7.5 bushels of rye in July, 1925, and 15.2 bushels in November of the same year. In the matter of calicos and cloth the

*Soviet Union Year-Book, 1926, p. 70.

**L. N. Yurovsky: "Our Economic Conditions and the Immediate Tasks of Our Economic Policy," in *Vestnik Finansov*, March, 1926, p. 20.

†40 funts equal one pood or 36 pounds. 1 arshin equals 2.3 feet.

difference was even more unfavorable. At present (July, 1926) the disadvantage to the peasant has become greater, since the prices of industrial products have gone up higher than those of agricultural products.

GRAIN EXPORT

It was originally estimated that the market supply of grain in 1925-26 would amount to 780,000,000 poods. But early in 1926 it became manifest that the peasant was unwilling to sell his new crop. Owing to this disposition to hoard the grain, the original estimate was revised downward to 600,000,000 poods.

Premier Rykof, addressing on March 3, 1926, the Leningrad Soviet, reported* that from September 1, 1925, up to the end of February, 1926, the State had bought up 370,000,000 poods of grain, both for home consumption and for export, whereas the official program provided for State purchase of 425,000,000 for that period. Rykof further stated that for the last six months the Government had gathered from the peasants 180,000,000 poods (about 3 million tons) less grain than expected. But it was reported that at the end of the crop year the government succeeded in gathering from the peasant 582,000,000 poods of grain, which means 18,000,000 poods short of the revised estimate.**

While there has been a large increase in the number of peasant land holders, by far the larger portion of the grain produced for the market is being held by a relatively small class of the better situated peasants.

Shortly before the Fourteenth Congress of the Communist Party of the Soviet Union held in December, 1925, a minority section of the Party, headed by Zinovief, Kamenev, and Krupskaya (Lenin's widow) carried on a campaign against the New Economic Policy and its supporters and argued that the time had come to curb abuses which had arisen under it and to introduce legislation directed against the so-called Kulaks, the well-to-do peasantry.

To support its statements, this minority section of the Communist Party published figures† based on the wheat and fodder balance sheet produced in June, 1925, by the Central Statistical Department—central statistical organ of the Government—which testified to the tremendous pauperization of the masses. According to these figures the well-to-do peasants, constituting from 8 to 12 per cent of the rural population, owned 61 per cent of the surplus wheat (production for the market), the poor had none, while the middle class peasants had the remaining 39 per cent. In December, 1925, the Central Statistical Department no longer gave 61 per cent as the figure, but 42 per cent.†

*"Izvestiya" (News, official organ of The Central Executive Committee of the Soviet Union), March 10, 1926.

**"Trade and Industry Gazette," (Moscow), August 14, 1926.

†Mentioned by Stalin at the December, 1925 Party Congress. *Pravda*, December 22, 1925.

But no matter what the exact percentage of the surplus wheat held by the Kulaks may be, the Government is forced to take into account the fact that the peasants have in their hands the production for the market, and that if they refuse to part with the wheat the State cannot buy manufactures from abroad. This was illustrated in the following speech by Kamenef at this Congress:

"In our operations with the wheat (from the last harvest) received from the peasants, our aim was to give an impetus to the development of Socialist elements. We intended to devote more than a billion of new capital to fresh construction and necessary equipment, and thus further industry in the towns, which should help us to reorganize small bourgeois economy. We now find ourselves in a position which makes us doubtful of the possibility of mobilizing not 1,100,000,000 as was assumed at first, not 900,000,000 as was assumed later, not 800,000,000 as is assumed now; we do not know if we can mobilize even 700,000,000 for this purpose. Why? . . . This year we tried to control the results of the good harvest we had. What happened? It was not we who 'regulated' the muzhik this year, but the little muzhik who controlled us."*

SUMMARY

The problem facing the Government at present in its agricultural policy is to secure further long term credits so that in course of time it will be able to provide the peasant with a larger quantity of goods at lower prices in exchange for his food products.

**Pravda*, December 29, 1925.

CHAPTER XI

RESTORATION AND DEVELOPMENT OF RAIL SYSTEM

THE largest trunk lines of the United States span only two-thirds of a continent, those of Canada span its full breadth but that of Russia spans two continents. Russia has extensive canal and river transit, as the Volga boat song bears witness, but with so great a land empire, agricultural and industrial revival hinge on railway transportation; and so in turn does foreign trade which must comprehend not alone sea transport but shipments from the ports to the interior. And the restoration and development of railway transportation in Russia hinge in turn on the ability of the Soviet Government to secure further credits.

RUIN OF RAILWAYS

On the eve of the World War, Russia's network of railways was not only feebly developed, but also badly equipped for efficient service. The war put upon the railways an added strain, and as it went on there was an acute deterioration of the service, accompanied by serious breakdowns. To this should be added the revolutionary period, the civil war accompanied by great destruction of railways, and the acute shortage of materials and fuel which threatened to paralyze the entire railway system. In 1913 the valuation of all Russia's railways was estimated at 7,600,000,000 gold rubles, and in May 1915, the Commissariat for Transport gave the present capital of all railways as 5,200,000,000 pre-war rubles. According to a Soviet source the restoration of the system, even to the low pre-war level, would necessitate 1,338,000,000 rubles.*

The extent of destruction and damage suffered by the roads has been estimated by Soviet authorities** as follows: About 54,000 versts† of railway fell within the sphere of war and only a center zone, with a network of about 16,000 versts, escaped wholesale destruction: 3,672 bridges, totalling about 37,000 sazhen, were wrecked; 1,700 versts of railway were destroyed; 1,500 depots were wrecked; about 980 water supply stations were destroyed; about 80,000 versts of telegraph lines were damaged; about 11,000 telephone instruments, and about 4,300 telegraph instruments were destroyed or carried off. About 5,000 public buildings, covering an area of over 170,000 square sazhen,† were destroyed.

RECONSTRUCTION OF RAILWAYS

In 1921 the work of restoring the transport system began. But only since 1923 has there been extensive improvement. Many bridges

*Aus der Volkswirtschaft der U. S. S. R., January, 1926, p. 35.

**L'Union Sovietique et la France (Moscow), 1925, pp. 124-127.

†One verst equals about two-thirds of a mile. One sazhen equals seven feet.

have been restored, rails relaid and rolling stock more or less put in working order. The railways of the Far East, which were in a particularly bad state and only came into possession of the Soviet Government in 1923, have not yet been restored. Aside from questions of administration, the speed of restoration is regulated by the amount of materials and equipment the Government is able to obtain from abroad on a long term credit basis.

The following, computed from official sources,* throws light on the slow progress as yet achieved toward the reconstruction of the railway service mileage. The operated mileage has remained all but stationary in the last year.

	Miles			Miles	
	1923-24	1924-25		1923-24	1924-25
First quarter	45,147	45,707	Third quarter	45,393	45,751
Second quarter	45,388	45,734	Fourth quarter	45,415	45,755

At present, however, there are under construction over 6,500 miles of new lines. For the current fiscal year (1925-1926) it is proposed to build about 1,000 miles of new line and to finish 2,300 miles already under construction.

It is, however, in connection with the locomotives and rolling stock that the greatest amount of repairs and replacement are necessary. The following table* shows the number of locomotives, as well as the percentage of locomotives in good condition:

Average per day	Total number of	Percentage in
1923-24	locomotives	good condition
First quarter	21,149	45.8
Second quarter	20,248	44.3
Third quarter	20,247	44.7
Fourth quarter	20,276	44.8
1924-25		
First quarter	20,283	45.8
Second quarter	20,337	46.9
Third quarter	20,254	48.5
Fourth quarter	20,204	48.8

A fair measure of a country's economic situation is the freight and passenger movement. According to official statistics** the daily loadings of cars averaged 30,500 for 1913; for the operating year 1921-22 only 10,942; for 1922-23, 11,603; for 1923-24, 13,523; and for the operating year ended September, 1925, 20,000. The total work of

*Reprinted in *Journal of Commerce*, March 5, 1926.

***Izvestia*, December 16, 1925 (Reports of F. E. Dzerjinsky to the XIV Moscow Party Conference).

railroad freight transport in 1921-22 amounted to 22 per cent of the volume in 1913; in 1922-23 the ratio was 30 per cent; in 1923-24 it rose to 46 per cent; and in 1924-25 to 65 per cent.*

The following table** throws light on the number of freight cars, as well as the percentage in good condition:

Average per day 1923-24	Number of freight cars	Percentage in good condition
First quarter	431,200	71.1
Second quarter	429,900	70.4
Third quarter	435,500	67.3
Fourth quarter	442,900	67.0
1924-25		
First quarter	442,900	71.9
Second quarter	443,600	72.9
Third quarter	447,000	74.3
Fourth quarter	446,700	76.7

The passenger cars are in a much worse state. No more than 13,000 out of the total of 25,300 are in working order.

The budget of the People's Commissariat for Transport shows a substantial increase. The gross receipts and expenditures for 1923-24 and 1924-25 were as follows:

Year	Gross Receipts	Expenditures
1923-24	685,352,000	704,439,000
1924-25	922,936,000	834,172,000

*Aus der Volkswirtschaft der U. S. S. R., January, 1926, p. 34.

***Journal of Commerce*, March 5, 1926.

CHAPTER XII

BACK TO THE GOLD RUBLE

THE American bank or business house which has dealings with Soviet Russia encounters today a market where the currency is on a gold basis, issued by the State Bank and by the government which operates under a balanced budget system. The replacement of the paper ruble with the Tchervonets (worth ten gold rubles, or approximately five American dollars) the establishment of the new State Bank and balanced budgets are milestones reached since the situation in 1920, when the fiscal machinery of the State suspended operations.†

RUSSIAN CURRENCY BEFORE THE REVOLUTION

Again we must go back to the situation before the war. Since 1897 Czarist Russia had based its currency upon the gold ruble, equivalent to 51.455 cents of American money. Paper money was issued under more rigorous restrictions than elsewhere. The authorized maximum fiduciary issue was fixed at 600,000,000 rubles, and of this amount one-half had to be covered by gold. Issues in excess of 600,000,000 rubles had to be wholly covered by gold. The Imperial Bank had the right of emission, without reference to gold reserves, within the legal limit of 300,000,000 rubles.

This system, however, as elsewhere, gave way to the exigencies of war and the maximum limit of uncovered note issue was raised from 300,000,000 to 1,500,000,000 rubles. Prior to March, 1917, the limit was raised five times to a total of 6,500,000,000 rubles, while under the Provisional Revolutionary Government until its overthrow by the Bolsheviks in November, 1917, this limit was raised five times more to a maximum of 16,500,000,000 rubles.* The growing deficit in the budget was covered partly by this means and partly by borrowing abroad. By 1917 nearly three-quarters of the budget deficit was covered by note issues. The usual results of inflation followed, the ruble began its rapid decline and the rise in prices kept pace with this inflation.

MILITARY COMMUNISM AND FINANCE

In November, 1917, the amount of outstanding notes had risen to nearly 19,000,000,000 rubles, and on November 1, 1917, the retail price index was 1,020, compared with 315 on March 1 of the same year. Thus on the eve of the November coup the purchasing power of the ruble had declined to about one-tenth of the pre-war level.

†A searching study of the Russian currency and financial situation was prepared by Mr. M. L. Jacobson, as a section of Vol. 2, Serial 9, "European Currency and Finance" for use of the Senate Commission of Gold and Silver Inquiry pursuant to Senate Resolution 469, 67th Congress, 4th Session. The study was also reprinted in *Acceptance Bulletin* of August 31, September 30 and October 31, 1925. See also the excellent book by Pasvolsky and Moulton on "Russian Debts and Russian Reconstruction", and L. N. Yurovsky's "Currency Problems and Policy of the Soviet Union."

*M. L. Jacobson in Senate Document on "European Currency and Finance," (1925), Serial 9, Vol. II., p. 189.

During the three-year period following the November revolution, marked by foreign wars, civil war and "military communism," currency inflation assumed increasingly large proportions, and by the summer of 1921 the purchasing power of the ruble had declined to one seventy-thousandth, or one eighty-thousandth of that in 1913.†

Under "military communism" money was not to play any part in the economic system, and the Soviet leaders came to the conclusion that the best means to achieve this end would be to let it depreciate itself out of existence. The Government adopted the principle of gratuitous distribution. In October, 1920, it was proposed to abolish cash payments by state and public service institutions, and as a result of this the fiscal machinery suspended operation.

MILITARY COMMUNISM AND REVENUES

According to "official estimates, the revenue derived from monetary taxation in the Budget of 1918, as computed from the index figures of commodity prices, amounted to 153,200,000 gold rubles; in 1919 to 10,200,000 rubles; and in 1920 to 200,000 rubles."* The actual receipts were even smaller. The money required for war operations and for maintaining the various organs of the Soviet state were raised from the grain levies, the confiscation of stocks and reserves of raw material, the gold reserves of the former State Bank (over 1,000,000,000 rubles) and requisitions from the agricultural population. "The greater part of these stocks and reserves were used up during the period of the civil war, and the period immediately following."** The large volume of issues of paper money (from November, 1917, to the middle of 1921 the nominal amount of outstanding paper currency increased from 22,446,000,000 rubles to 2,346,139,000,000 rubles, i.e., more than one hundred fold) merely supplemented the deficient revenues of the Soviet Government.

During this period the Russian budget derived the bulk of its revenues from the taxes in kind exacted from the peasantry. These taxes, exclusive of the requisitions for the support of the army, which at the height of the civil war was 5,000,000 strong, amounted in money equivalent to 127,000,000 of pre-war rubles in 1918-1919; to 253,000,000 pre-war rubles in 1919-1920; and to about 500,000,000 pre-war rubles in 1920-1921.**

RESTORATION OF CURRENCY AS MEDIUM OF EXCHANGE

In March, 1921, the New Economic Policy was started and money regained somewhat its old importance as a general instrument of exchange. The first attempt to restore a normal financial system was

†Prof. L. N. Yurovsky in Senate Document on "European Currency and Finance", (1925), Serial 9, Vol. I., p. 253.

*Yurovski, L. N., "Currency Problems and Policy of the Soviet Union", London, (1925), p. 22.

**Jacobson, M. L., Op. cit., p. 195.

made at the close of 1921. The All-Russian Congress of Soviets directed the Commissariat of Finance to use its utmost efforts in effecting the restoration of a normal currency system based upon gold. During the second half of 1921, money taxes were reintroduced. But public revenues, with the exception of food taxes, which continued to be collected in kind almost to the end of 1923, were quite insignificant.

CREATION OF NEW STATE BANK

In November, 1921, a new State Bank was opened, and the capital was furnished by the State Treasury. But "in the beginning of 1922, nine-tenths of the States' *monetary* expenditures (we italicize 'monetary', since in those days a good many elements of moneyless economy still continued in the finances of Soviet Russia) were still covered by means of issues of paper money."† The rapid increase of the monetary expenditures of the Government and the crop failure of 1921-22 brought on an extraordinary growth of inflation during the first period of "NEP." The "stable" budget for nine months of 1922 had to be three times revised, for prices started on an unprecedentedly rapid rise, increasing more than twenty-fold during the first six months of 1922.

"According to estimates, the gold or pre-war value of the 223,844,000,000 paper rubles issued in June, 1921, did not exceed 3,100,000, while the aggregate pre-war value of the 16,370,838,000,000 rubles of paper money issued during that entire year was not quite 150,000,000 rubles. In 1922, according to official calculation, the total revenue from issue operations (in terms of pre-war rubles) was 344,500,000 rubles, or about 60 per cent of a total of 570,300,000 rubles of money revenue for the year, and while money revenues from taxes and government undertakings were visibly increasing, it was evident that for some time to come the revenue from note issues would continue to figure quite prominently in the Russian state budget."*

CURRENCY REFORM

The entire economic life of the country suffered intolerably from this collapse of the currency and economic and financial considerations called for stable money. The reconstruction of the monetary system on a stable basis passed through two stages: First, the issue of secured "Tchervonets" bank notes by the new State Bank "preserving at the same time the Soviet paper money as unstable currency, the issue of which for some time to come should continue as a source of covering the budget deficits."†† Between the new money unit and the paper ruble the law did not fix any ratio, but the law (promulgated on October 11, 1922) did establish a ratio between the new unit and the pre-war gold ruble. A Tchervonets** was decreed equivalent to a quantity of gold contained in 10 pre-war rubles.

†Prof. L. N. Yurovsky in Senate Document, Serial 9, Vol. I, (1925), p. 255.

*Jacobson, op. cit., p. 200.

††Prof. L. N. Yurovsky, op. cit., p. 256-257.

**Tchernovets, singular form; Tchervontsy, plural.

With the rapid depreciation of the Soviet paper ruble the peasantry refused any longer to take this money in exchange for the currency and this brought the second stage—the final liquidation of the paper ruble and its replacement with the Tchervonets during the early part of 1924.

THE STATE BANK

The new State Bank opened for operation on November 16, 1921. During the early period of its existence its efforts were directed toward the restoration of the normal banking and credit machinery. Provincial branches and offices were opened, and at present more than 450 such branches are in operation. Business relations were also entered into at an early date with the leading banks in the principal European and American centers. According to a circular of the Russian State Bank, the following important New York banks are the chief correspondents of the Soviet banking system: the Chase National Bank, the Equitable Trust Company of New York, International Acceptance Bank, Inc., and the J. Henry Schröder Banking Corporation. The State Bank has been also instrumental in developing remittance operations with foreign countries. The State Bank as at present constituted acts primarily not as a bank of banks, but as a bank of short term industrial and commercial credit, dividing the field with other banks, partly its own creatures, especially organized to serve the credit needs of Russian State trade and industry.*

On October 11, 1922, the bank received the right of note issue in terms of the new currency unit, the Tchervonets. The table reprinted on page 70 gives the growth of issue operations of the State Bank and the composition of the note cover during the past four years.

By December 1, 1925, the State Bank had accumulated a reserve of 18,265,000 Tchervontsy in gold, 3,374,000 Tchervontsy in platinum and 4,858,000 Tchervontsy in foreign exchange, or a total "hard" note cover (or reserve) of 26,497,000 Tchervontsy. Against this reserve there were outstanding a total of 78,650,000 Tchervontsy bank notes. The ratio of "hard" cover (note reserve) to notes outstanding was thus 33.7 per cent.

From December 1, 1925, to May 1, 1926, the Bank lost 3,608,000 Tchervontsy in gold and 334,000 Tchervontsy in platinum, while its foreign exchange reserve increased by 140,000 Tchervontsy. The net decrease of the Bank's "hard" note cover for the five months was 3,802,000 Tchervontsy. During the same period the Bank's outstanding note issue decreased by 5,187,000 Tchervontsy. The percentage of "hard" cover of the notes shows, therefore, for the same period a decrease from 33.7 to 30.9 per cent. On September 1, 1926, the reserve ratio was slightly over 30 per cent. The minimum percentage of note cover required by the law is 25 per cent.

In April, 1926, while the State Bank officially quoted the Tchervonets on a par with gold, open market quotations were at a

*"Journal of Commerce," Jan. 8, 1926.

discount of 10 to 25 per cent.* The reduction in the amount of circulation effected during the spring of 1926, particularly the reduction by almost 8 per cent in the amount of outstanding bank notes, was accompanied by a decline in the open marked discount of the Tchervonets to about 5 per cent in the beginning of May, 1926.

TABLE IX
GROWTH OF ISSUE OPERATIONS OF STATE BANK AND COMPOSITION OF
NOTE COVER, 1922-26†

In thousands of Tchervontsy (of 10 gold rubles) equal to \$5.145 each			
	Gold coin and bullion	Platinum bullion	Foreign exchange
Nov. 28, 1922	407	-----	108
July 1, 1923	4,959	63*	291
Dec. 1, 1923	8,741	90*	4,677
July 1, 1924	9,269	854**	10,007
Dec. 1, 1924	13,140	1,298	10,139
July 1, 1925	16,909	2,370	4,894
Dec. 1, 1925	18,265	3,374	4,858
March 1, 1926	15,335	3,384	4,981
April 1, 1926	14,751	3,035	5,043
May 1, 1926	14,657	3,040	4,998
Sept. 1, 1926	14,827	3,056	5,052

	Bills of exchange†	Total assets and liabilities	Notes transferred to Banking Dept.
Nov. 28, 1922	-----	515	200
July 1, 1923	5,448	10,761	9,600
Dec. 1, 1923	13,453	26,961	26,776
July 1, 1924	20,120	40,250	38,750
Dec. 1, 1924	34,109	58,686	57,719
July 1, 1925	43,077	67,250	66,466
Dec. 1, 1925	52,503	79,000	78,650
March 1, 1926	54,300	78,000	75,892
April 1, 1926	55,171	78,000	72,409
May 1, 1926	55,305	78,000	73,463
Sept. 1, 1926	59,979	83,000	75,162

†From official figures issued monthly by the Soviet State Bank. Data from November, 1922, to December, 1925, reprinted in "Journal of Commerce," January 8, 1926.

*Silver bullion.

**Including 111,000 tchervontsy of silver bullion.

†Including drafts in foreign currencies and advances on merchandise.

The official figures of the State Bank printed on page 71 indicate the increasing strain to which the Bank is subjected by the mounting credit demands of industry. The regular commercial loans between July 1, 1925, and July 1, 1926, show a two-thirds increase, that is, from 56.7 to 94.5 million Tchervontsy. This does not include an increase for the year of 148,000,000 Tchervontsy in "other loans and discounts."

*Moscow cable in *New York Times*, April 14, 1926.

TABLE X

CONDITION OF THE STATE BANK OF THE UNION OF THE
SOVIET SOCIALIST REPUBLICS, 1923-1926*

ASSETS

(In thousands of Tchervontsy of \$5.145 each)

	Oct. 1-'23	Oct. 1-'24	July 1-'25	Oct. 1-'25	July 1-'26
Cash in vault and in transit.....	2,052	6,224	9,447	9,872	7,352
Precious metals and foreign currency	15,852	30,884	27,160	29,807	24,118
Securities and commodities	2,550	5,083	6,181	8,723	6,706
Discounted bills	12,436	27,984	56,655	74,059	94,470
Special productive credits.....	.....	.....	17,466	23,357	21,180
Advances on goods.....	17,107	25,110	15,965	20,562	19,198
Other loans and discounts.....	.....	.....	3,299	5,325	18,135
Grain operations account.....	12,763	18,663	11,269	27,215	16,144
Loans a/c finance commissariat Correspondents .....	.....	.....	22,195	21,167	26,605
Due from branches and offices	17,506	36,677	96,563****
All other assets	3,389	10,764	9,640	6,958	17,211
Total assets	83,655	161,389	276,167	227,372	251,561

LIABILITIES

	Oct. 1-'23	Oct. 1-'24	July 1-'25	Oct. 1-'25	July 1-'26
Capital	5,000	10,000	10,000	10,000	10,000
Surplus .....	.....	790	790	1,500	1,500
Notes in circulation.....	23,500	52,185	66,466	75,664	72,663
Special funds for long-term loans to industry, a/c commis- sariat of finance.....	10,900	16,012	22,185	21,126	26,648
Current account and other deposits:					
(a) Due to Commissariat of Finance	17,889	36,120	24,249	52,512	64,845
(b) Other deposits .....	.....	.....	29,654	42,632	39,785
Drafts and transfers unpaid.....	1,062	1,197	296	809	377
Grain operations account.....	.....	.....	1,162	365	159
Correspondents .....	.....	.....	177	307	936
Due to branches and offices.....	17,117	36,496	101,150	1,788**	1,923**
Interest, commission and other earnings	84	248	9,190	865	14,728
Profit and loss.....	1,568	2,861	1,560	7,214	2,714
All other liabilities.....	6,535	5,480	9,288	12,590	15,283
Total liabilities	83,655	161,387	276,167	227,372	251,561

*From official statements issued by the Soviet State Bank. Data for 1923-1924 quoted in Senate Document, Serial 9, volume 2, 1925, pp. 217-218.

**Beginning with October, 1925, inter-bank balances are shown net only.

NATIONAL BUDGET

The first national budget, the figures of which had any real relation to facts, was that of 1923-24. For the fiscal year ended September 30, 1923, note issues furnished nearly 30 per cent of the total state revenues, and about 8 per cent for the fiscal year ended 1924. For 1924-25 the Government relinquished altogether note issues as a source of State revenue. The remainder of the deficit was covered by loan operations.

The first loans were for short terms, and in kind—grain loans, sugar loans, etc. These were followed by a 6 per cent ten year lottery gold loan which had, however, to be changed to a forced loan, as voluntary subscriptions to it produced only some 26,000,000 rubles out of the 100,000,000 rubles expected. The next series of loans were floated in the course of 1924—the 8 per cent compulsory gold loan for six years, the 6 per cent Rural Lottery Loan, also partaking of compulsory features, and a peasant loan for about 50,000,000 which was not entirely successful.

REVENUE AND INTERNAL DEBT

The total internal debt recognized by the Soviet Government has grown from 244,900,000 rubles on October 1, 1924, to 589,638,000 on July 1, 1926, all of which has been incurred since 1922. On January 1, 1926, the debt stood at about 500,000,000 rubles, composed as follows:*

	Rubles
First Lottery Loan, 1922	98,935,000
Second Lottery Loan, 1924	69,774,000
First Peasant Loan	37,911,000
Second Peasant Loan	46,661,000
8 per cent domestic guaranteed gold loan	68,118,000
5 per cent short term loan, 1925	10,000,000
Short term Treasury Bonds	106,234,000
Economic Reconstruction Loan	62,300,000
Total	499,933,000

The estimated revenue for 1925-26 shows a satisfactory increase over the previous years. For the past two years no revenue has been derived from the issuance of paper money. But there is a revenue from the coinage of silver and copper. It was 80,000,000 rubles in 1924-25 and it is expected to be 30,000,000 rubles in 1925-26. The fall in direct taxation as against 1924-25 is stated to be due to the Government's policy of reducing direct taxes on the peasant. The 1925-26 estimated revenue includes a yield of 175,000,000 rubles from vodka and other spirits.

On the expenditure side of the budget are shown increases of about 400,000,000 rubles for transportation and communication, and an increase of more than 30 per cent over 1924-25 for the army.

The budget for 1925-26 is about one and three-quarters billions rubles larger than the budget of 1913, although actually it is not quite comparable, owing to the diminished purchasing power of the gold ruble. Russia's total revenue for 1913—revenue from sources other than borrowing—was 3,453,000,000 rubles; total expenditures were 3,383,000,000

*"Finansovaya Gazeta" (official organ of Commissariat of Finance), February 26, 1926, p. 3.

rubles. The present budget is divided into ordinary and extraordinary receipts and expenditures. It should be noted that this budget does not include the local budgets for the towns and rural districts.†

The table below shows the revenues and expenditures of the Soviet Government for the four fiscal years ending September 30, 1923, 1924, 1925 and 1926.

TABLE XI
RECEIPTS AND EXPENDITURES OF THE UNION OF SOVIET REPUBLICS*
(In thousands of current rubles)

REVENUES				
	1922-23 ¹	1923-24 ¹	1924-25 ²	1925-26 ³
Ordinary:				
Direct taxes, including fees.....	242,472	480,413	754,451	719,244
Indirect taxes	164,838	308,087	562,515	976,190
Revenue from transportation, posts and telegraphs	391,891	727,058	994,973	1,445,000
Revenue from State domains and undertakings, etc.	57,636	208,205	308,932	480,078
Total ordinary revenue.....	856,837	1,723,763	2,620,871	3,620,512
Extraordinary:				
Proceeds from loans (exclusive of certificates of the Commissariat of Finance)	81,891	183,573	113,500	100,000
Revenue from the issue of silver and copper coin .....	.....	74,418	80,000	30,000
Revenue from issue of paper currency	394,090	126,282	.....	.....
All others .....	.....	190,112	61,240	28,125
Total revenue from loans and currency issues	475,981	574,385	254,740	158,125
Total revenue	1,332,818	2,298,148	2,875,611	3,778,637
EXPENDITURES				
Defense	204,895	428,868	464,825	624,518
Transportation and communication.....	535,558	813,040	996,874	1,387,415
Industry: Advances and subsidies to.....	144,366	161,106	149,308	183,180
Agriculture	78,924	92,882	204,383	276,789
Cultural and social.....	120,014	118,762	167,543	237,606
Administrative .....	.....	151,182	221,416	277,529
Administrative Economic .....	.....	152,455	130,904	152,555
Operations of the Federal Treasury.....	.....	113,767	171,466	212,838
Aid to local budgets.....	.....	127,366	271,622	321,287
All others	252,582	138,720	97,270	105,000
Total.....	1,336,319	2,298,148	2,875,611	3,778,637
Additional local expenditures**.....	285,500	649,000	899,000	1,329,000

**Viestnik Finansov* (Financial monthly of the Commissariat of Finance), No. 1, 1925 and No. 11, 1925, pp. 190-192.

***Finansovaya Gazeta*, March 14, 1926.

(1) Actual Revenue and Expenditures, (2) Budget Sanctioned, (3) Budget estimate by the Commissariat of Finance.

†In the statement accompanying the Budget estimates no provision is made for interest and repayment of the foreign debt. Russia's total net foreign indebtedness today, not counting any accumulations of interest since 1917, when all interest payments ceased, was estimated by the Institute of Economics at about 13.8 billion rubles, or in the neighborhood of 6.9 billion dollars. The credits obtained from the United States Treasury during the period July to November, 1917 amount to \$187,729,750 on which interest of \$67,161,027 had accrued up to November 15, 1925. For other claims held by American citizens, see the bulletin of the U. S. Bureau of Foreign and Domestic Commerce on "Foreign Capital Investments in Russian Industries and Commerce," 1923. Also Annual Report of the U. S. Secretary of the Treasury, year ending June 30, 1925.

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For current economic information see especially "The Russian Review" published semi-monthly by the Russian Information Bureau, Washington, D. C., and the U. S. Commerce Reports.

APPENDIX

I

Extract from
ANNUAL MESSAGE OF THE PRESIDENT OF THE UNITED STATES
to
A Joint Session of the Senate and House of Representatives
December 6, 1923

"Our diplomatic relations, lately so largely interrupted, are now being resumed, but Russia presents notable difficulties. We have every desire to see that great people, who are our traditional friends, restored to their position among the nations of the earth. We have relieved their pitiable destitution with an enormous charity. Our Government offers no objection to the carrying on of commerce by our citizens with the people of Russia. Our Government does not propose, however, to enter into relations with another régime which refuses to recognize the sanctity of international obligations. I do not propose to barter away for the privilege of trade any of the cherished rights of humanity. I do not propose to make merchandise of any American principles. These rights and principles must go wherever the sanctions of our Government go.

"But while the favor of America is not for sale, I am willing to make very large concessions for the purpose of rescuing the people of Russia. Already encouraging evidences of returning to the ancient ways of society can be detected. But more are needed. Whenever there appears any disposition to compensate our citizens who were despoiled, and to recognize that debt contracted with our Government, not by the Czar, but by the newly formed Republic of Russia; whenever the active spirit of enmity to our institutions is abated; whenever there appear works meet for repentance; our country ought to be the first to go to the economic and moral rescue of Russia. We have every desire to help and no desire to injure. We hope the time is near at hand when we can act."

II

NOTE SENT BY THE SOVIET COMMISSARY FOR FOREIGN AFFAIRS
To the President of the United States of America
(December 16, 1923)

"It has been the constant endeavor of the Soviet government to bring about a resumption of friendly relations with the United States of America based upon mutual trust. With this in view, it has repeatedly announced its readiness to enter into negotiations with the American Government and to remove all misunderstandings and differences between the two countries.

"After reading your message to Congress, the Soviet government, sincerely anxious to establish at last firm friendship with the people and government of the United States, informs you of its complete readiness to discuss with your govern-

ment all problems mentioned in your message, these negotiations being based on the principle of mutual non-intervention in internal affairs. The Soviet government will continue wholeheartedly to adhere to this principle, expecting the same attitude from the American government.

"As to the questions of claims mentioned in your message, the Soviet government is fully prepared to negotiate with a view toward its satisfactory settlement on the assumption that the principle of reciprocity will be recognized all around. On its part, the Soviet government is ready to do all in its power, so far as the dignity and interests of its country permit, to bring about the desired end, of renewal of friendship with the United States of America.

"TCHITCHERIN,
"People's Commissary for Foreign Affairs."

III

SECRETARY HUGHES' REPLY TO MOSCOW

With respect to the telegram to President Coolidge from Tchitcherin of December 16th, 1923, the Secretary of State on December 18th made the following statement in reply:

"There would seem to be at this time no reason for negotiations. The American Government, as the President said in his message to the Congress, is not proposing to barter away its principles. If the Soviet authorities are ready to restore the confiscated property of American citizens or make effective compensation, they can do so. If the Soviet authorities are ready to repeal their decree repudiating Russia's obligations to this country and appropriately recognize them, they can do so. It requires no conference or negotiations to accomplish these results which can and should be achieved at Moscow as evidence of good faith. The American Government has not incurred liabilities to Russia or repudiated obligations. Most serious is the continued propaganda to overthrow the institutions of this country. This Government can enter into no negotiations until these efforts directed from Moscow are abandoned."

This reply was transmitted to Moscow on December 18, 1923, through the American Consul at Tallinn (Reval).

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